PART 2

Hydro Operations Information Paper

Resources Building
1416 Ninth Street
95814

(916) 445-5656

Department of Conservation
Department of Fish and Game
Department of Forestry
Department of Boating and Waterways
Department of Parks and Recreation
Department of Water Resources

GEORGE DEUKMEJIAN
GOVERNOR OF
CALIFORNIA

THE RESOURCES AGENCY OF CALIFORNIA
SACRAMENTO, CALIFORNIA

Air Resources Board
California Coastal Commission
California Conservation Corps
Colorado River Board
Energy Resources Conservation and Development Commission
Regional Water Quality Control Boards
San Francisco Bay Conservation and Development Commission
Solid Waste Management Board
State Coastal Conservancy
State Lands Commission
State Reclamation Board
State Water Resources Control Board

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LOG # TIE-2-117
RECEIPT DATE:
DEC 29 1987
AREA: DISTRICT
P-3

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PGC

December 22, 1987

Mr. John Taves
Bonneville Power Administration
P. O. Box 3621
Portland, Oregon 97208-3621

Dear Mr. Taves:

The State has reviewed the Hydro Operations Information Paper, Intertie Development and Use EIS , Information Update and Request for Comment, submitted through the Office of Planning and Research.

Review of this document was coordinated with the California Energy Commission, Public Utilities Commission, Air Resources Board, State Water Resources Control Board, and the Department of Fish and Game.

None of the above-listed reviewers has provided a comment regarding the proposed project. Consequently, the State has no comments or recommendations to offer.

Thank you for providing an opportunity to review this document.

Sincerely,

Gordon F. Snow, Ph.D
Assistant Secretary for Resources

cc: Office of Planning ann Research
1400 Tenth Street
Sacramento, CA 95814
(SCH 86102806)

Direct Service Industries, Inc.

November 24, 1987

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # TIE-2-118
RECEIPT DATE:
DEC 29 1987
AREA: DISTRICT
All

Mr. Walt Pollock
Assistant Administrator for Sales
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97232

Dear ~~Mr. Pollock~~ Walt

We have reviewed BPA's Hydro Operations Information Paper and the feasibility analysis for the 3rd AC line incorporated in the IDUEIS at pages 4.8-1 to 4.8-4. These confirm a number of DSI concerns which DSI representatives previously have discussed with you. We believe it appropriate to write you about those concerns well in advance of the December 31, 1987, end of comment period. This will allow BPA the maximum possible amount of time to address these concerns in advance of issuing its revised draft LTIAP and the final IDUEIS.

First, we note that the Hydro Operations Information Paper assumes firm sales from the Northwest to the Southwest ranging from 2150 to 3150 megawatts, as does the IDUEIS. For these sales, plus sales of nonfirm energy, it finds that impacts on the hydro system are generally within acceptable limits. However, no analyses are made of the potential impacts that seasonal firm power exchanges may have on the hydro system. Since these are the principal long-term transactions now being considered by most Northwest and Southwest utilities, their impacts on hydro system operations must be studied. We suggest studies as outlined in Hec Durocher's November 12, 1987, letter to you. The studies should address all the questions included in Hec's letter, a copy of which is attached for your convenience. Also, we recommend adding one additional case to the analysis consisting of 3000 megawatts of seasonal exchanges.

With respect to the feasibility of the 3rd AC line, we believe there is not sufficient detail to know the basis for a positive conclusion. We certainly are not comfortable with a net present value of benefits, both for the entire Pacific Northwest and the Southwest, of only $187 million over the 45-year study period. This is particularly true when (i) firm sales of up to 3150 megawatts are assumed, an amount far in excess of those being projected in the LTIAP, and (ii) forecasted prices assumed

Hydro Operations Information Paper

Close of Comment 12/31/87

Letter Number	Commenter/Affiliation
TIE-2-117	Gordon F. Snow, Resources Agency of California
TIE-2-118	John Carr, Direct Services Industries, Inc.
TIE-2-119	Robert G. Whitlam, State of Washington, Dept. of Community Development, Office of Archaelogy & Historic Preservation
TIE-2-120	F. Lorraine Bodi, Attorney, National Oceanic and Atmospheric Administration
TIE-2-121	Gregory Bowers, G.H. Bowers Engineering
TIE-2-122	Mark Crisson, Tacoma Public Utilities
TIE-2-123	Russell Peterson, U.S. Dept. of Interior, Fish & Wildlife Service
TIE-2-124	Jim Jones, Attorney General, State of Idaho
TIE-2-125	Joseph Blum, State of Washington, Dept. of Fisheries
TIE-2-126	Peter Fairchild, California Public Utilities Commission
TIE-2-127	Stuart Gardiner, Pacific Gas & Electric
TIE-2-128	Al Wright, Pacific Northwest Utilities Conference Committee
TIE-2-129	Dan Magers, Idaho Steelhead & Salmon
TIE-2-130	Ed Chaney, Northwest Resource Information Center, Inc.
TIE-2-131	Roy Elicker, National Wildlife Federation
TIE-2-132	R.W. Kendall, Southern California Edison Company
TIE-2-133	Larry Peterman, Montana Dept. of Fish & Wildlife
TIE-2-134	John Keys, U.S. Dept. of Interior, Bureau of Reclamation
TIE-2-135	S. Timothy Wapato, Columbia River Inter-Tribal Fish Commission
TIE-2-136	G.R. Garman, Seattle City Light
TIE-2-137	Hector J. Durocher
TIE-2-138	Einar Wold, National Marine Fisheries Service
TIE-2-139	James Fry, U.S. Army Corps of Engineers
TIE-2-140	C. Dale Duvall, U.S. Dept. of Interior, Bureau of Reclamation
TIE-2-141	Morris Brusett, Northwest Power Planning Council

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95814

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GEORGE DEUKMEJIAN
GOVERNOR OF
CALIFORNIA

Air Resources Board
California Coastal Commission
California Conservation Corps
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and Development Commission
Regional Water Quality
Control Boards
San Francisco Bay Conservation
and Development Commission
Solid Waste Management Board
State Coastal Conservancy
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State Reclamation Board
State Water Resources Control
Board

THE RESOURCES AGENCY OF CALIFORNIA
SACRAMENTO, CALIFORNIA

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December 22, 1987

Mr. John Taves
Bonneville Power Administration
P. O. Box 3621
Portland, Oregon 97208-3621

Dear Mr. Taves:

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Thank you for providing an opportunity to review this document.

Sincerely,

Gordon F. Snow, Ph.D
Assistant Secretary for Resources

cc: Office of Planning ann Research
1400 Tenth Street
Sacramento, CA 95814
(SCH 86102806)

Direct Service Industries, Inc.

November 24, 1987

RECEIVED BY BPA
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LOG #: TIE-2-118
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DEC 29 1987
AREA: DISTRICT
All

Mr. Walt Pollock
Assistant Administrator for Sales
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97232

Dear ~~Mr. Pollock:~~ Walt

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for oil and gas which are considerable higher than present estimates. We believe the feasibility analysis of the 3rd AC should assume that the principal uses of an expanded intertie will be for exchanges and additional sales of nonfirm energy. Also, updated estimates of oil and gas prices should be used in the analysis.

We believe the hydro impacts studies of seasonal exchanges should be completed, or at least to an advanced stage, before BPA issues a revised draft LTIAP that grants exchanges. In addition, a feasibility analysis which considers costs and benefits to BPA as well as the entire west should be completed before BPA spends significant funds related to the 3rd AC line. We will be pleased to discuss these matters with you and your staff at your convenience.

Sincerely yours,

John D. Carr
Executive Director

HD3:n23

Attachment to TIE-2-118, Also logged seperately: TIE-2-137

November 12, 1987

Mr. Walt Pollock
Assistant Administrator for Sales
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97232

Dear Walt,

I believe studies under conditions of regional load/resource balance with DSI loads of 3,000 mw and top quartile load of 750 mw, probably mid-1990s conditions, would give reasonable insights to impacts seasonal exchanges will have on hydro system operations. I suggest the following cases:

1. No seasonal exchanges, 300 mw firm intertie sale.
2. Add 800 mw seasonal exchanges.
3. Increase seasonal exchanges to 1,500 mw.
4. Add 2,000 mw combustion turbines to be operated using provisional drafts, to the extent possible. Of course provisional drafts for the CTs would be made only after such drafts for DSI top quartile service.

Assume the seasonal exchanges are for delivery May through September and return November through March and that delivery will be made before return. Also, run one or more cases assuming the "fish flush" program is terminated.

For each case, evaluate reservoir status monthly, if possible. Are they within allowable limits? Is reservoir refill impacted? Are there substantial differences in the ability to operate the system for DSI top quartile service, and when using 2,000 mw of CTs to firm nonfirm, with and without the exchanges? Are some months better and others worse with the exchanges? If so, what are the tradeoffs?

Appropriate analyses should be made and system operations found to be satisfactory with the exchanges, including preserving an ability for BPA to later enter into such exchanges, before BPA grants seasonal exchange rights to others under the long term intertie access policy.

Sincerely yours,

Hector J. Durocher
Consultant

cc Bob Griffin, BPA
Bob Lamb, BPA

Chuck Clarke
XXXXXXXXXXXXX
Director

STATE OF WASHINGTON

DEPARTMENT OF COMMUNITY DEVELOPMENT
OFFICE OF ARCHAEOLOGY AND HISTORIC PRESERVATION

111 West Twenty-First Avenue, KE-11 • Olympia, Washington 98504-5411 • (206) 753-4011 • SCAN 234-4011

November 23, 1987

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: TIE-2-119
RECEIPT DATE:
DEC 30 1987
AREA: DISTRICT
OS

Ms. Barbara Ritchie
NEPA Coordinator
Department of Ecology
Mail Stop PV-11
Olympia, WA 98504-8711

Log Reference: 993-F-BPA-10
Re: Intertie Development and Use: Hydro Operations Information Paper

Dear Ms. Ritchie:

A staff review has been completed of the above referenced environmental impact statement information update and request for comment. We look forward to BPA's consultation and the development of a Memorandum of Agreement regarding cultural resource issues.

Sincerely,

Robert G. Whitlam, Ph.D.
State Archaeologist
(206) 753-4405

dw

cc: Roy B. Fox

U.S. DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration

DEC 1987
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FG

December 24, 1987

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PUBLIC INVOLVEMENT
LOG #: TIE-2-120
RECEIPT DATE:
DEC 30 1987
AREA: DISTRICT

Roy B. Fox
Environmental Coordinator
Bonneville Power Administration
U.S. Department of Energy
P.O. Box 3621
Portland, OR 97208

RE: Intertie Development and Use Environmental Impact Statement (IDU-EIS); Hydroelectric Operations Issue Paper

Dear Mr. Fox:

I recently received a copy of Bonneville Power Administration's (BPA) Hydroelectic Operations Information Paper, and have two questions regarding its purpose and use.

First, how does the Information Paper relate to the draft and final IDU-EIS? After technical comments are received, does BPA intend to review the relevant portions of the draft IDU-EIS and provide for additional public comment? If not, we urge BPA to reconsider and allow for such public comment. The materials outlined in the Information Paper will undoubtedly lead to changes in the IDU-EIS that warrant preparation of a supplemental draft. Comments submitted on the Information Paper itself cannot substitute for comments on a revised EIS.

Second, how does the Information Paper relate to the decision in Idaho v. Herrington? Does BPA view the Information Paper as an alternative to preparation of a draft EIS that addresses the D.C. expansion and other issues highlighted by the court? If so, we urge BPA to reconsider. As you know, the draft IDU EIS considered the D.C. expansion to be an established action rather than an optional decision. The opportunity to submit comments on the previous IDU-EIS and on the Information Paper is not the public review opportunity contemplated by the court. In order to satisfy the court's directive, BPA should either provide a revised draft IDU-EIS or a separate draft EIS for public review and comment.

In sum, I am concerned that BPA may be viewing its internal intertie schedule as more important than full compliancae with environmental review responsibilities. I would appreciate your

prompt response to these questions and your careful consideration of our recommendations.

Sincerely,

Lori Bodi

F. Lorraine Bodi
Attorney for National
Marine Fisheries Service

cc: Donna Lou Geiger
Chris Ross

LFB/mjs

G.H. BOWERS ENGINEERING
Consultations on Power System Planning

1930 North 122nd Street • Seattle, Washington 98133 Telephone: (206) 361-0461

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # TIE-2-121
RECEIPT DATE:
DEC 30 1987
AREA: DISTRICT
OS

December 24, 1987

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Re: Comments on Hydro Operations Information Paper

Dear Ms. Geiger:

The following revisions would improve BPA's models which input to the IDU Final EIS:

1. Page 25 states that the BPA is not using a model which is particularly useful in the assessment of impacts on recreation. Use the Sheppard or some other relevant computer model or drop the ruse of a study.

2. Page 11 - To achieve the assumed export levels, BPA needs nearly 10,000 MW of surplus capacity to generally be available. It isn't. BPA can not evaluate the system's ability to export 7900 MW and serve regional markets without making hourly simulations.

3. BPA's refusal to acknowledge that, in months of great surplus, nuclear plant generation may be reduced, continues to flaw its analysis.

4. Page 4 - BPA continues to assign capacity sales to the intertie expansion. Such assignment is improper since these sales may be transmitted over existing lines.

5. Intertie expansions, if used, will tend to "bounce" water levels in free-flowing reaches and near tailwaters. Throughout BPA's environmental assessment, this is not made clear.

Sincerely,

Gregory H. Bowers

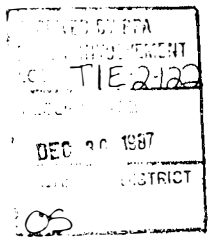
Gregory H. Bowers, P.E.

TACOMA PUBLIC UTILITIES

E. E. COATES, DIRECTOR
3628 South 35th Street
P.O. Box 11007
Tacoma, Washington 98411
(206) 383-2471

DIVISIONS
Light
Water
Belt Line

December 18, 1987



Ms. Donna Geiger
Public Involvement Manager
Bonneville Power Administration
Post Office Box 12999
Portland, Oregon 97212

Dear Ms. Geiger:

Re: Hydro Operations Information Paper (PGC)

Tacoma's Light Division appreciates the opportunity to comment on the Hydro Operations Information Paper. The analysis of impacts to fish, recreation, and cultural resources contained in the Hydro Operations Information Paper was well done and represents a significant improvement over that presented in the Intertie Development and Use Draft EIS and the proposed Long Term Intertie Access Policy. We commend the Bonneville Power Administration's (BPA) efforts to model the operation of the hydro system and agree with BPA's conclusions.

We did not find any areas of concern with the analysis performed, due to the thorough and complete nature of the work. However, we are concerned with the conclusions reached. Determining that the expansion of the Intertie will impact fishery resources and that mitigation is required is unreasonable considering the insignificant levels of the results.

The study performed was broad in scope and too complex to consider changes of one to three percent in relative survival rates for fish stocks to be significant. Modeling techniques, quality of data, or the criteria used in the analysis could account for levels of error equal to or greater than the results obtained. BPA should consider results of this level to be insignificant.

We are also concerned about the discussion of potential mitigation for impacts to anadromous and resident fish for the reasons discussed above, and because impacts from the operation of the hydro system are already being mitigated. The Columbia Basin Fish and Wildlife Program, and the Federal Energy Regulatory Commission license requirements for the individual hydro facilities represent a substantial level of mitigation for impacts to anadromous and resident fish. The Fish and Wildlife Program and license requirements address mitigation of the full operational capability of the hydro facilities, not just the current operating regime. As long as the hydro system is operated in compliance with these requirements, additional mitigation is not required.

We appreciate the opportunity to comment on the Hydro Operations Information Paper and hope you will give our comments serious consideration before finalizing the Intertie Development and Use EIS.

Yours very truly,

Mark Crisson
Superintendent
Light Division

United States Department of the Interior

FISH AND WILDLIFE SERVICE

Portland Field Office
727 N. E. 24th Avenue
Portland, OR 97232

December 30, 1987

RECEIVED BY BPA
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LOG #: TIE-2-123
RECEIPT DATE:
DEC 30 1987
AREA: DISTRICT
OP

cc. S. Smith - PJI
ALG

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P. O. Box 12999
Portland, OR 97212

Dear Ms. Geiger:

We have reviewed your Hydro Operations Information Paper related to the Intertie Development and Use Environmental Impact Statement, and offer the following assistance. There are several aspects of the paper which raise serious concerns, including FISHPASS model use, use of the Power Council's Fish and Wildlife Program benefits to justify or permit additional impacts, and uncertain and unsound mitigation options.

The Corps of Engineers FISHPASS model should not be used to make precise predictions of future smolt survival rates for the "with" and "without" project scenarios. Because of the large number of assumptions employed in FISHPASS and the inherent variability and in some cases uncertainty associated with the input values for those assumptions, FISHPASS should be used for comparative purposes only. Utilized as a simulation model, we believe FISHPASS has value in identifying those project alternatives which have the greatest potential for impacting anadromous fish, relative to other alternatives, and which deserve further, detailed study. Our view of FISHPASS is quite similar to Bonneville's view of the System Analysis Model (SAM) as expressed in the subject document (pg. 9). There BPA concludes that the SAM is useful for comparative purposes but because of the large number of assumptions inherent in the model "actual future operations may differ from model predictions." It is worth noting in this regard that outputs from SAM, which may not accurately predict future conditions, are used as inputs to FISHPASS which results in purportedly very precise predictions of smolt survival rates. It seems inappropriate to assume that the survival rates which are projected by FISHPASS are numerically accurate when a substantial portion of the input data is considered valuable for comparative purposes only.

Reductions in smolt survival rates which exceed the "flagging" criteria were identified for several salmon and steelhead stocks. The indication, however, is that mitigation is not necessary under most scenarios for the impacted stocks primarily because of the projected benefits from implementation of measures in the Columbia Basin Fish and Wildlife Program. We seriously question the analyses and strongly disagree with the conclusions.

As stated, the predictions of smolt survival based on SAM inputs to FISHPASS are probably not appropriate from the standpoint of model assumptions and precision. In addition, we question the validity of estimating impacts based on the questionable model predictions in conjunction with projections of future population viability which would be realized only if certain other actions are taken and estimated outcomes are achieved.

The benefits to anadromous fish to be derived from the Columbia Basin Fish and Wildlife Program are intended to partially offset past losses associated with the construction and operation of the existing hydroelectric system in the Columbia Basin, and to rebuild populations. Those benefits are not intended to offset future losses associated with new project construction or changes in current operations such as are proposed in the Intertie EIS. To conclude that mitigation of impacts associated with changes in the intertie development and use need not be done because of the mitigation being implemented for other, past hydroelectric system caused losses is entirely inappropriate. The acceptable course of action is to compare the future conditions, with and without the intertie development and use proposals, which will necessarily involve some consideration of the Fish and Wildlife Program, and then provide complete mitigation for the identified impacts. In determining what mitigation would be necessary for the intertie-related losses the ongoing mitigation for other hydroelectric system caused losses would be considered irrelevant except for its bearing on determining future conditions. It should be kept in mind here that the current proposal in the Fish and Wildlife Program to increase annual adult returns to the basin by 2.5 million fish falls far short of replacing the total losses attributed to the existing hydroelectric system of 5 to 11 million fish.

Clearly we have not progressed far in achieving the recently-established goal of rebuilding anadromous fish populations to a substantially higher level. In light of this, no new actions which decrease survival can be considered acceptable unless losses are fully mitigated. The information paper reflects no commitment or obligation to protect ratepayer investments in rebuilding fish runs. Even among the three mitigation options identified as "available for consideration" for one stock of fish, two are objectionable. We do not support transportation as a long-term mitigation option, nor hatchery production as a full solution to losses which may include wild and natural stocks.

Finally, wherever possible the analysis of impacts to anadromous fish should distinguish between wild and natural stocks and hatchery stocks. Wild and natural stocks represent extremely valuable genetic resources in Columbia Basin. Conserving existing wild and natural stocks and the genetic diversity they represent is an important consideration in evaluating the impacts of this and other proposals. By combining both hatchery and wild or natural stocks where they occur together impacts to the wild and natural stocks may be masked. As a result impacts which may affect the viability of some wild and natural stocks or the ability to successfully rebuild them may be overlooked.

Thank you for this opportunity to comment.

Sincerely,

for Patrick D. Wright
Russell D. Peterson
Field Supervisor

cc:
BPA, FWS, Washington, D.C.
(Attn: Nancy Gloman, ref. ER 87/1238)
RO-FWE, Attn: Don Sundeen

JIM JONES
ATTORNEY GENERAL

STATE OF IDAHO
OFFICE OF THE ATTORNEY GENERAL
BOISE 83720

TELEPHONE
(208) 334-2400

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG: TIE-2-124
RECEIPT
DEC 31 1987
AREA: DISTRICT
W WL
(OW) (OWL)

CC: ALG
S. Smith - PJI

December 30, 1987

Donna L. Geiger
Office of Public Involvement
Bonneville Power Administration
905 N.E. 11th Ave.
Portland, Oregon 97232

Re: Comments on the Hydro Operations Information Paper

Dear Ms. Geiger:

The Office of the Attorney General of Idaho hereby submits its comments on the Bonneville Power Administration's Hydro Operations Information Paper ["information paper"]. This office concludes that BPA's intertie program continues to pose unacceptable risks to the wild salmon and steelhead resource of the upper Columbia River Basin. The DC Expansion Project and Third AC Intertie should go forward only if BPA commits to a program of increased planned spill at mainstem Columbia and Snake River dams.

As explained in detail below, the information paper is deficient in several material respects, and BPA should prepare a revised draft environmental impact statement ["EIS"] on the intertie-related proposals. Until such a draft EIS has been prepared, the public and agency decisionmakers are deprived of the information needed to make a reasoned assessment of BPA's intertie program.

I. The Information Paper Does Not Comply with t Idaho v. Herrington Directing BPA to Prep Environmental Impact Statement on the DC Expansion Project.

The information paper does not comply with the Court's order in State of Idaho v. Herrington, Nos. 86-7704 and 7705, directing BPA to prepare an EIS for the DC Expansion Project. A copy of that order is attached hereto as Exhibit 1. The National Environmental Policy Act ["NEPA"] requires federal agencies to prepare and circulate a draft EIS as part of every EIS process. 40 C.F.R. § 1502.9(a).

Despite the Ninth Circuit's October 6 Order and the clear requirements of law, the information paper reaffirms BPA's decision not to prepare a draft EIS for the DC Expansion Project. Although BPA never clearly articulates its reasoning, the agency apparently believes that the draft IDU EIS can somehow serve as a draft EIS for the DC Expansion Project: "[T]he IDU EIS is well suited to satisfying the directives of the court in State of Idaho v. Herrington." (Information Paper at 2, n.1). BPA is mistaken.

The draft IDU EIS expressly disclaims any intent to serve as a draft EIS for the DC Expansion Project: "That project is addressed here for information purposes and should not be viewed as a decision option, but rather as a means to facilitate a comprehensive understanding of the context within which other projects must be considered." (IDU DEIS at 1-5). A new draft EIS must be prepared for the DC Expansion Project because draft IDU EIS treats the project merely as background information rather than a proposal under consideration.

The failure to prepare a valid draft EIS is not a defect that can be cured at the final EIS stage, and the remedy for such a violation is an order to recirculate the draft EIS for the full comment period. If BPA persists in its present course of action, it can be forced to redo the EIS process after it has released the "final" IDU EIS.

The consequences of failing to prepare a draft EIS, is not merely a matter of form over substance. The information paper

does not offer the public any opportunity to comment on alternatives to the DC Expansion Project, project economics or a detailed mitigation plan. All of these subjects ne Order in are an are essential parts of a draft EIS and are ignored in the information paper.

II. Efforts to Rebuild the Salmon and Steelhead Runs of the Upper Columbia River Basi the Significance of Adverse Fisheries Impacts.

The information paper attempts to use the benefits anticipated from the Columbia Basin Fish and Wildlife Program to discount the significance of adverse impacts: "the severity of simulated impact was compared, when possible, to the magnitude of positive effect of past, present and planned mitigation measures as described in the Columbia Basin Fish and Wildlife Program." (Information Paper at 14). Where the benefits of the Fish and Wildlife Program appear substantial, impacts to affected stocks are dismissed as insignificant. (Id.) This approach is fundamentally at odds the Administrator's obligation to accord equitable treatment to the fish and wildlife resources of the Columbia River Basin.

NEPA does not permit BPA to cancel some of the benefits of the Fish and Wildlife Program and to label that loss insignificant. Significant environmental effects occur to the extent that the benefits of the Fish and Wildlife Program are reduced. NEPA requires BPA to reveal and discuss:

> Possible conflict between the proposed action and the objectives of Federal, state, and local (and in the case of reservations, Indian tribes) land use plans, policies, and controls for the areas concerned.

40 C.F.R. § 1502.16(c). Thus, BPA must consider mitigation measures to offset adverse impacts to all affected stocks, including stocks that will be helped by the Fish and Wildlife Program.

III. BPA Must Consider the Highly Uncertain Nature of Potential Fisheries Impacts.

The methods used to analyze fisheries impacts are highly controversial. Regional fisheries agencies and tribes have submitted detailed critiques of BPA's analytical methods in comments on the Supplemental Environmental Assessment for the DC Expansion Project and the draft IDU EIS. Comments on those two documents remain relevant and are incorporated herein by reference.

The information paper's fisheries analysis attempts to simulate two extraordinarily complex systems, the inter-regional power market and the salmon and steelhead migration and survival in the Columbia River Basin. Despite this complexity, the information paper displays fisheries impacts and "flagging criteria" in purportedly precise terms; differences in survival are presented down to tenths of one percent. For instance, a stock that falls just 0.1% below a threshold for flagging is not discussed.

This approach masks the pervasive uncertainty of FISHPASS and SAM modeling. Comments on the draft IDU EIS set forth many basic problems with the reliability of the FISHPASS model, particularly the unreliability of input parameters and the failure to fully test the sensitivity of the model.

The changes made in modeling assumptions since the release of the draft IDU EIS cannot resolve the underlying unreliability of FISHPASS results. The Mainstem Passage Advisory Committee failed to reach agreement on the values to be assigned many key parameters. Moreover, the analysis relies on the occurrence of future events that are uncertain. For instance, the repeated delays in the installation of fish bypass facilities and disappointing fish guidance efficiencies at certain Corps of Engineers' projects underscore the difficulty of predicting when these facilities will be installed and operating as planned. Yet, BPA cites projected increases in migrant survival at Mid-Columbia projects due to bypass facilities as a major reason for the decrease in the number of stocks affected by intertie operations. The chance that these bypass facilities will not be completed on

schedule and will not attain projected fish guidance efficiencies adds to the uncertainty of the fisheries analysis.

This office, fisheries agencies, and tribes have requested changes in the fisheries analysis designed to take uncertainties into account. We have requested that BPA test a range of input parameters and assumptions and present a range of possible survival results. (See e.g., Letter from S. Timothy Wapato to Stephen Smith, August 4, 1986). We have requested a full sensitivity analysis of FISHPASS. We have requested that BPA devise ways of verifying the accuracy of FISHPASS or develop alternative methodologies as a cross-check for FISHPASS results. To date, BPA has not fully complied with any of these requests.

Criticism of the FISHPASS and SAM modeling has been confirmed by the extreme volatility of BPA's fisheries analyses since the release of the Supplemental Environmental Assessment on the DC Expansion Project in July, 1986. The number of stocks exceeding the "flagging" criteria for the DC Expansion Project has gone from 4 to 7 to 40 to 2 at the various stages of BPA's environmental analysis over the last 16 months. These violent swings in output raise serious questions regarding the reliability of the analytical tools that BPA has employed.

A table depicting the number of stocks estimated to be adversely affected by intertie proposals as of last July is attached hereto as Exhibit 2. Certain scenarios show that up to 59 stocks of salmon and steelhead would exceed the flagging criteria. Since BPA's analysis counts only 100 stocks in the upper Columbia River Basin, these impacts must be regarded as extremely severe.

The information paper appears to dismiss last July's dire predictions. The paper indicates that refinements and corrections in computer modeling have managed to reduce the simulated impacts of the DC Expansion Project by 95% in just four months. If the SAM and FISHPASS models are so sensitive to human error and to changes in modeling assumptions, then current model output should not be regarded as reliable. The information paper appears to represent just another wild swing in an analytical pendulum that seems likely to continue to shift.

IV. Adverse E
Increasing the Planned Spill in Acc
Proposals of the Fisheries Agencies and

NEPA requires that BPA consider the highly uncertain nature of fisheries impacts in choosing appropriate mitigation measures, as well as in presenting the results of environmental studies. BPA should acknowledge that its intertie program creates unique and unknown risks for the salmon and steelhead resource and develop mitigation measures based on the understanding that fisheries impacts may far exceed BPA's expectations. This means that BPA should commit itself to increasing the amount of planned spill at federal projects.

The region's fishery agencies and tribes have long argued that the 90% survival standard prescribed by the Fish and Wildlife Program is inadequate. Overgeneration spill is an essential factor compensating for the inadequacy of the existing planned spill program. The key environmental impact of increased intertie operations is the loss of this additional spill. Therefore, discussion of mitigation should focus on replacing lost overgeneration spill with an augmented planned spill program.

This approach is consistent with the mandate of the Fish and Wildlife Program. The Northwest Power Planning Council has called for an augmented spill program under non-critical water conditions. Thus, the obligation to search for an improved spill program now comes from two entirely complementary sources. NEPA's directive to consider mitigation measures through the IDU EIS process and the Council's mandate for more spill in non-critical water years.

An improved spill program is the necessary response to the uncertainty regarding impacts on salmon and steelhead. As explained above, the impacts of the various intertie proposals are highly uncertain. If BPA wants to undertake a marketing program that involves unknown risks to salmon and steelhead, then it should ensure that baseline mainstem passage measures are sufficient to meet biological standards under a full range of possible impacts. Thus, proper safeguards for fish -- in the form of an adequate spill program -- should be in effect before the salmon and steelhead runs of the upper Columbia River Basin are

exposed to increased intertie additional mortality. BPA should support the fishery agency/tribal spill proposal presented to the Mainstem Passage Executive Committee as a necessary mitigation measure for increased intertie operations.

The information paper's discussion of mitigation measures is inadequate under NEPA. The paper simply lists possible mitigation measures which could be undertaken without specifying which techniques will be used. This approach was rejected in Oregon Natural Resources Council v. Marsh, 820 F.2d 1051, 1055 (9th Cir. 1987). In that case, the Ninth Circuit stated: "Without a complete mitigation plan, the decisionmaker is unable to make an informed judgement as to the environmental impact of the project -- one of the main purposes of an environmental impact statement." Id. The mitigation plan must be made available for public comment
process. 40 C.F.R. § 1502.9(a).

The information paper's discussion of mitigation is also inadequate because it does not represent the full range of appropriate mitigation measures.
mitigation only for stocks that are not projected to benefit substantially from the Fish and Wildlife Program. The discussion of mitigation measures must be part of the consideration of alternatives and therefore must encompass a full range of alternative mitigation strategies. BPA must examine a broader spectrum of strategies, including options that take uncertainty into account by providing adequate baseline mainstem passage protection for all stocks.

V. BPA Must Reassess the Economics of Intertie Expansions.

The information paper presents no economic analysis of either the DC Expansion Project or the Third AC Intertie. Yet, market conditions have changed so dramatically since the release of the draft IDU EIS that the decisions to proceed with the intertie upgrades must be reassessed in light of prevailing conditions.

BPA's own Nonfirm Revenue Analysis Program forecasts a sharply reduced California power market through FY 1990. The collapse of oil and gas prices since early 1986 has driven the price of Northwest surplus power sharply lower. Oil and gas

prices are likely to remain low for the next couple of years; oil futures remain at about $19/bbl. Gas prices continue to run about 30% less than BPA's prior forecast. The cost/benefit analysis presented in the draft IDU EIS does not reflect this basic change.

Two tables depicting BPA's Forecasted PSW Nonfirm Market for FY 1990 graphically demonstrate the changed circumstances. These tables are attached hereto as exhibits 3 and 4. Exhibit 3 shows the FY 1989 forecast prepared in December, 1986; Exhibit 4 shows the FY 1990 forecast prepared in November, 1987. The difference is dramatic. As of one year ago, the forecasted California market for FY 1989 would exceed current intertie capacity if surplus power were sold 15 mills/kwh. Last month, the forecasted FY 1990 market would exceed current intertie capacity only if power were sold at about 8 mills/kwh. Although the information paper mentions changed oil and gas prices in reference to the fisheries analysis, no attempt is made to address how these changes affect the need for the intertie expansions.

A thorough discussion of alternatives to the intertie expansion proposals is essential. Low prices for surplus power in California mean that other uses for surplus power may be preferable to out-of-region sales. For instance, at 8 mills/kwh, it would be economical for BPA to displace a large volume of regional coal-fired generation rather than export that power to California. More fundamentally, lower prices reduce the cost effectiveness of the DC Expansion Project and Third AC Intertie. BPA should give thorough consideration to abandoning or deferring intertie expansions given current economic conditions.

VI. Snake River Naturally Spawning Fall Chinook.

The information paper indicates that the DC Expansion Project will have significant impacts on the Lyons Ferry Hatchery fall chinook stock. However, the paper does not mention impact to upper Snake River naturally spawning fall chinook, which is also composed of Snake River summer migrants and which must pass two additional dams. Given subyearling FGE's of less than 20% at Little Goose and Lower Granite dams, how can the DC Expansion Project produce significant impacts to the Lyons Ferry stock without also harming the upriver naturally spawning stock?

CONCLUSION

The Hydro Operations Information Paper does not resolve the concerns that this Office raised in comments on the draft IDU EIS. The fisheries analysis ignores substantial doubts about the reliability of FISHPASS and SAM modeling and misuses the benefits of the Fish and Wildlife Program to dismiss significant impacts. The discussion of mitigation measures marks little improvement over the grossly inadequate discussion in the draft IDU EIS. The information paper presents no information whatsoever on important changes in the inter-regional power market situation and does not consider how these changes affect the need for additional intertie capacity.

BPA should do two things to get its intertie program back on track. First, it should produce a revised draft EIS that cures the defects in its information paper and the draft IDU EIS. Second, it should support the fishery agency/tribal spill proposal as a necessary mitigation measure for the increased intertie operations.

With best wishes, I am,

Sincerely,

JIM JONES
ATTORNEY GENERAL

JTJ/et

TIE-2-124 Attachment

NOT FOR PUBLICATION

FILED

OCT 6 1987

CATHY A. CATTERSON, CLERK
U.S. COURT OF APPEALS

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

STATE OF IDAHO, by & through Jim Jones, Atty. General, and DEPARTMENT OF FISH & GAME, Jerry M. Conley, Director, Petitioners, -vs- JOHN HERRINGTON, Secretary, U.S. Department of Energy; JAMES JURA, Administrator, Bonneville Power Administration, Respondents..	No. 86-7704
NATIONAL WILDLIFE FEDERATION, Petitioner, -vs- U.S. DEPARTMENT OF ENERGY; BONNEVILLE POWER ADMINISTRATION, Respondents.	No. 86-7705 O R D E R

Before: WALLACE, NORRIS, and THOMPSON, Circuit Judges.

It appears that the parties have been unsuccessful in reaching the agreement that we thought they would through negotiations. The Bonneville Power Administration (BPA) brought a motion for appointment of a settlement judge, but the petitioners and petitioners-intervenors oppose the motion unless we also enjoin

Exhibit 1

TIE-2-124 Attachment

further work on the DC Expansion Project. We now make the following orders.

I

The BPA will proceed with all reasonable speed to prepare a new environmental impact statement (EIS). The EIS will, among other things, consider environmental concerns due to the DC Expansion Project, the impact of tying in the DC Expansion Project to the AC Expansion Project, and the new contracts marketing arrangements involving power to be transmitted to the Southwest with appropriate consideration of the environmental impact as a result of the estimated power usage. The BPA will also consider alternatives in addition to not going forward with the project, including mitigation of damage to the environment.

II

In addition, we appoint Senior District Judge Irving Hill of the Central District of California as a Special Master. Judge Hill will consider whether we should issue an injunction during the time the EIS is being prepared, and if so, he should provide us with a recommended draft. He will also consider whether we should enter an interim order providing for mitigation of environmental damage. He may also recommend any modifications of part I of this order.

If appropriate, Judge Hill is also authorized to preside over the negotiations for settlement of any and all issues involved in this case.

Judge Hill is requested to report to us in sixty-three

(TIE-2-124 Attachment)

(63) days from the date of this order. The attorneys for the parties shall contact Judge Hill within seven (7) days of the date of this order and receive his instructions.

TIE-2-124 Attachment

...TERNATIVE	STOCKS WITH[1] POTENTIAL IMPACTS + / -	CRITERIA[2] EXCEEDENCE + / -	RANGE OF MEAN[3] RELATIVE SURVIVIAL CHANGES + / -	MAXIMUM SINGLE[4] YEAR RELATIVE SURVIVAL CHANGE + / -
PRMXA	35 / 55	42 / 221	1.2 / 9.0	37 / 33
PRMXB	14 / 59	8 / 233	0.8 / 9.8	23 / 36
PRDCB	15 / 40	15 / 114	0.7 / 4.8	23 / 21
PREXA	36 / 17	58 / 17	2.9 / 2.6	37 / 18
PREXB	9 / 4	6 / 2	0.8 / 0.6	15 / 12
PRMXBNL	34 / 68	55 / 22	0.4 / 10.3	19 / 36
PRMXBNH	21 / 7	10 / 6	1.6 / 0.2	17 / 15
PRMXBCF	6 / 7	4 / 6	0.4 / 0.6	11 / 16
PRMXBGH	28 / 60	23 / 236	0.6 / 11.8	26 / 35

) Number of stocks out of a total of 100 which exceeded screening criteria for potentially significant survival changes and require an in-depth stock status evaluation to determine the level of significance. Increases (+) and decreases (-) in survival are shown.

.) Total number of screening criteria exceeded out of a total of 495 tests covering all stocks and years of analysis.

) The minimum and maximum relative changes in mean survival for all stocks and years of analysis.

.) The maximum single-year relative change in survival for all stocks.

-EXB Base Case (no action) - Pre-Intertie Access Policy (IAP), existing intertie capacity, base case firm contracts.
-MXA Proposed policy, maximum expansion, assured delivery.
-MXB Proposed policy, maximum expansion (existing plus DCX plus third AC), base case firm contracts.
-DCB Proposed access policy, existing intertie plus DC intertie (DCX), base case firm contracts.
-EXA Proposed policy, existing intertie, assured delivery.
-EXB Proposed policy, existing intertie, base case firm contracts.
-MXBNL (PRMXB) with low Northwest loads assumption
-MXBNH (PRMCB) with high Northwest loads assumption
-MXBCF (PRMXB) with 500 mw firm resource.
-MXBGH (PRMXB) with high gas price assumption.

-75N

Exhibit 2

TIE-2 124 Attachment

Division of Rates PLXE
Date: DEC 22, 1986
Time: 17:52

Nonfirm Revenue Analysis Program
Forecasted PSH Nonfirm Market
Average Megawatts
Fiscal Year 1989

NFRAP 3

	A Oct-88	B Nov-88	C Dec-88	D Jan-89	E Feb-89	F Mar-89	G Apr-89	H May-89	I Jun-89	J Jul-89	K Aug-89	L Sep-89	M aMW-89
1 PSH Market at 40.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
2 PSH Market at 39.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
3 PSH Market at 38.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
4 PSH Market at 37.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
5 PSH Market at 36.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
6 PSH Market at 35.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
7 PSH Market at 34.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
8 PSH Market at 33.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
9 PSH Market at 32.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
10 PSH Market at 31.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
11 PSH Market at 30.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
12 PSH Market at 29.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
13 PSH Market at 28.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	2908	2798	477
14 PSH Market at 27.0 Mills/kWh....	0	0	0	0	0	0	0	0	678	2462	3902	4057	930
15 PSH Market at 26.0 Mills/kWh....	0	0	0	1372	1564	1487	1371	2411	1920	3302	4045	4096	1799
16 PSH Market at 25.0 Mills/kWh....	0	973	1418	1475	1701	1615	1676	2466	2224	3465	4093	4165	2108
17 PSH Market at 24.0 Mills/kWh....	2339	1670	1459	1523	1694	1712	1702	2524	2333	3633	4093	4204	2412
18 PSH Market at 23.0 Mills/kWh....	3432	1905	1551	1547	1753	1815	1780	2474	2373	3705	4093	4206	2559
19 PSH Market at 22.0 Mills/kWh....	3547	2216	1711	1733	1845	2022	1933	2625	2751	3848	4140	4240	2724
20 PSH Market at 21.0 Mills/kWh....	3721	2550	1753	2132	2140	2502	2405	3466	3297	4110	4250	4289	3058
21 PSH Market at 20.0 Mills/kWh....	4064	3239	1809	2522	2930	3238	3435	4204	3774	4268	4410	4516	3544
22 PSH Market at 19.0 Mills/kWh....	4067	3586	1850	3059	2994	3412	3500	4267	3935	4269	4488	4866	3694
23 PSH Market at 18.0 Mills/kWh....	4067	3587	1939	3108	2924	3432	3501	4283	3810	4269	4727	4884	3715
24 PSH Market at 17.0 Mills/kWh....	4072	3588	2004	3110	2908	3427	3556	4334	3801	4269	4749	5210	3756
25 PSH Market at 16.0 Mills/kWh....	4343	3641	2066	3198	3089	3584	3645	4420	3988	4325	4914	5271	3877
26 PSH Market at 15.0 Mills/kWh....	4594	3796	2675	3394	3475	3924	3822	4776	4148	4805	5243	5455	4180
27 PSH Market at 14.0 Mills/kWh....	4864	4082	3238	3658	4161	4379	4647	4925	4505	5071	5381	5717	4554
28 PSH Market at 13.0 Mills/kWh....	5109	4345	3393	3863	4607	4614	4896	5074	4729	5329	5572	5761	4774
29 PSH Market at 12.0 Mills/kWh....	5341	4733	3775	4232	4885	4803	5202	5303	5251	5724	5920	5936	5099
30 PSH Market at 11.0 Mills/kWh....	5407	5005	4066	4599	5440	5350	5467	5714	5600	6039	6209	6112	5416
31 PSH Market at 10.0 Mills/kWh....	5458	5189	4680	4984	5770	5904	5893	6002	5800	6037	6325	6447	5712
32 PSH Market at 9.0 Mills/kWh....	5458	5392	4716	5099	5788	5962	5972	6239	6003	6130	6327	6447	5793
33 PSH Market at 8.0 Mills/kWh....	5458	5458	5045	5417	6279	6391	6289	6464	6261	6309	6485	6500	6034
34 PSH Market at 7.0 Mills/kWh....	5458	5458	5255	5417	6472	6391	6402	6464	6202	6415	6496	6508	6001
35 Adjustments to PSH Market													
36 Contractual Surplus Energy.....	260	211	170	170	188	204	270	260	351	348	340	351	260
37 Nonfederal Contracts PSH.....	723	643	647	554	373	350	350	142	168	428	743	742	490
38 IS Firm Wheeling Contracts.....	90	65	43	52	58	60	64	75	94	116	136	104	80
39 Constraint of PSH Market													
40 Intertie Available.....	3790	4205	4184	4529	5893	5467	5502	5604	5531	5410	5197	5299	5043

Exhibit 4

TIE-2 MP Attachment

Division of Rates PLJIC
Date: NOV 27, 1987
Time: 11:21

Nonfirm Revenue Analysis Program
Forecasted PSH Energy Market
Average Megawatts
Fiscal Year 1989

	A Oct-88	B Nov-88	C Dec-88	D Jan-89	E Feb-89	F Mar-89	G Apr-89	H May-89	I Jun-89	J Jul-89	K Aug-89	L Sep-89	M aMW-89
1 PSH Market at 41.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
2 PSH Market at 40.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
3 PSH Market at 39.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
4 PSH Market at 38.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
5 PSH Market at 37.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
6 PSH Market at 36.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
7 PSH Market at 35.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
8 PSH Market at 34.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
9 PSH Market at 33.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
10 PSH Market at 32.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
11 PSH Market at 31.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
12 PSH Market at 30.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
13 PSH Market at 29.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
14 PSH Market at 28.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
15 PSH Market at 27.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
16 PSH Market at 26.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
17 PSH Market at 25.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
18 PSH Market at 24.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
19 PSH Market at 23.0 Mills/kWh.....	0	0	0	0	0	0	0	0	0	0	0	0	0
20 PSH Market at 22.0 Mills/kWh.....	0	0	0	1730	1535	2007	0	0	0	0	0	0	446
21 PSH Market at 21.0 Mills/kWh.....	0	0	0	1766	1770	2242	984	0	0	0	0	0	560
22 PSH Market at 20.0 Mills/kWh.....	0	1587	1231	2011	1717	2453	1047	873	1666	1936	3336	3139	1748
23 PSH Market at 19.0 Mills/kWh.....	1507	1578	1283	1954	1870	2450	1099	905	1753	2958	3332	3139	1994
24 PSH Market at 18.0 Mills/kWh.....	1710	1565	1395	2096	1794	2605	1156	939	1669	2941	3357	3145	2032
25 PSH Market at 17.0 Mills/kWh.....	1729	1686	1356	2115	1832	2647	1207	1053	1845	2997	3329	3162	2084
26 PSH Market at 16.0 Mills/kWh.....	1790	1769	1448	2186	1920	2682	1224	982	1904	3053	3347	3170	2125
27 PSH Market at 15.0 Mills/kWh.....	1722	1820	1509	2306	2103	2738	1444	1077	2198	3113	3375	3213	2226
28 PSH Market at 14.0 Mills/kWh.....	2232	2450	1722	3080	2783	3271	2177	1770	3198	3563	3787	3641	2806
29 PSH Market at 13.0 Mills/kWh.....	2434	2526	1876	3276	3092	3402	2424	2127	3328	3622	3980	3794	2989
30 PSH Market at 12.0 Mills/kWh.....	2844	3001	2238	3381	3201	3475	2600	2489	3466	3601	4090	3871	3201
31 PSH Market at 11.0 Mills/kWh.....	3246	3271	2567	3695	3670	3925	3356	2902	3710	3799	4251	4265	3561
32 PSH Market at 10.0 Mills/kWh.....	3695	3711	2938	3971	4007	4394	3689	3304	3801	4099	4423	4421	3866
33 PSH Market at 9.0 Mills/kWh.....	3882	3942	3382	4588	4427	4971	3963	3646	4321	4440	4705	4650	4243
34 PSH Market at 8.0 Mills/kWh.....	4465	4566	3900	4932	4896	5139	4510	4112	4720	4682	4832	4804	4626
35 PSH Market at 7.0 Mills/kWh.....	5045	5055	4825	5457	5359	5399	4983	4567	5164	5172	5339	5310	5139
36 PSH Market at 6.0 Mills/kWh.....	5304	5328	4990	5458	5413	5464	5250	4831	5281	5314	5404	5377	5282
37 PSH Market at 5.0 Mills/kWh.....	5304	5328	5168	5458	5413	5464	5250	5132	5281	5314	5404	5377	5322
38 PSH Market at 4.0 Mills/kWh.....	5305	5328	5168	5458	5413	5464	5250	5132	5281	5314	5404	5377	5322
39 Adjustments to PSH Market													
40 Contractual Surplus Energy.....	42	12	12	12	12	12	12	17	60	62	62	63	32
41 Nonfederal Contracts PSH.....	723	643	647	556	373	350	350	142	168	428	743	742	490
42 IS Firm Wheeling Contracts.....	196	181	148	103	58	17	13	18	20	27	173	193	96
43 Constraint of PSH Market													
44 Intertie Available.....	3779	3850	4134	4305	5809	5700	5797	5923	5907	5762	5240	5293	5127

Exhibit 3

JOSEPH R. BLUM
Director

STATE OF WASHINGTON
DEPARTMENT OF FISHERIES
115 General Administration Building • Olympia, Washington 98504 • (206) 753-6600 • (SCAN) 234-6600

December 30, 1987

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: TIE-2-125
RECEIPT DATE:
DEC 31 1987
AREA: DISTRICT
T (OS)

CC: Steve Smith PSI
ALG - ②

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
Post Office Box 12999
Portland, Oregon 97212

Dear Ms. Geiger:

Intertie Update, Hydro Operations
Information Paper

We appreciate the opportunity to comment on your Hydro Operations Information Paper and hope that our comments will help you revise your assessment of the impacts of the intertie expansion.

General Comments

This document provides an explanation of how Bonneville staff derived an estimate of the levels of impact for the intertie expansion project. However, this document is not an adequate substitute for either a separate EIS on the DC Expansion Project or a major revision of your draft IDC EIS issued on October 31, 1986.

We have two major concerns regarding your general process of determining the significance of impacts to fishery resources. The first concern relates to the use of flagging criteria as an apparent threshold of significance. Your proposed flagging criteria appear to be based upon a measure of statistical significance. This may be a convenient, and in some cases, an appropriate means of establishing a threshold of significance. However, when dealing with stocks of anadromous salmonids whose abundance and productivity have been chronically depressed, any measurable impact is biologically significant and must be reported in your EIS. The second concern involves the expression of the attitude or position that additional hydropower related impacts are justifiable for Columbia River Basin stocks of salmonids if other system corrective measures are having positive benefits. We find this position untenable for three reasons:

1. Virtually all of the stocks of anadromous salmonids originating in the Columbia Basin above Bonneville Dam are experiencing depressed productivity due to impacts of existing hydropower project operations. Many stocks are and have been unharvestable for many years. Others which

are presently harvestable could be providing substantially greater harvest opportunity if it were not for the past and present hydropower impacts.

2. Your modeling exercise indicates that even the stocks which you project to have substantial increases in survival will not achieve the Northwest Power Planning Council interim goal of doubling the run size. Yet you advocate further hydropower impacts which will exacerbate the difficult task of meeting that goal.

3. Through the Northwest Power Planning Council's Fish and Wildlife Program and other regional initiatives, there are hundreds of millions of dollars being invested to mitigate and compensate for current hydropower system impacts to anadromous salmonids. Yet you advocate subjecting these stocks of fish to further hydropower impacts which will substantially reduce the benefits to be derived from the current mitigation/compensation activities. Many of these activities involve the direct expenditure of millions of dollars in BPA rate payer funds.

Specific Comments

Page 16, Para. 4. The terminology "mean relative survival decreases" is somewhat confusing. In particular, how is the mean derived? You appear to be taking the average of averages for these values. More importantly, we feel that you are required to present an assessment of the potential worst case scenario for each affected stock, not "mean relative survival decreases" for "stock(s) of concern."

Page 19, Para. 1. Any projected survival decrease for the Lower Monumental pool fall chinook stock is highly significant for two principal reasons:

1. There is a critical lack of broodstock available to meet current mitigation/compensation programs for this stock.

2. There is also a critical lack of suitable sites for conducting additional hatchery mitigation for this stock of salmon. The feasibility of accomplishing additional hatchery-based compensation for this stock in an acceptable manner and location is highly questionable.

Page B-4, Para 4. The introduction dates for bypass facilities at the mid-Columbia hydroelectric projects are not completely accurate. The 1989 date for Wells is accurate, however, the dates for the Chelan PUD projects, Rocky Reach and Rock Island, are tentative and probably not accurate for utilization in your modeling exercise. The 1989 date for the Grant PUD projects, Wanapum and Priest Rapids, are completely unrealistic. Grant PUD recently submitted for our review a schedule for bypass development at Wanapum which would have the initial prototype installed for testing in 1992. In addition, Grant PUD is proposing juvenile transportation from Wanapum in lieu of bypass development at Priest Rapids. This position is not shared by the fishery agencies and tribes and the resolution of this issue, plus the fact that a prototype is still being tested at Priest Rapids in 1988 will preclude bypass installation in 1989.

Page B-6, Para 5. Why was only the Corps fish spill plan utilized in the analysis? The fishery agencies have produced alternative fish spill plans which may be utilized in the future.

If you have questions regarding this response, contact Rod Woodin at (206) 586-2823.

Sincerely,

Richard L. Allen for

Joseph R. Blum
Director

JRB:RW:db

cc: NMFS-C. Ross
CRITFC-R. Lothrop

STATE OF CALIFORNIA — GEORGE DEUKMEJIAN, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102 3298

RECEIVED BY EPA
PUBLIC INVOLVEMENT
LOG # TIE-2-126
RECEIPT DATE
DEC 31 1987
AREA: DISTRICT
P-3
cc: ALG
PJI

December 30, 1987

Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
9000 N.E. 11th Street
Portland, Oregon 97232

Re: Hydro Operations Information Paper

Dear Ms. Geiger:

Enclosed for filing in the above-referenced matter please find the COMMENTS OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION.

Sincerely,

Peter G. Fairchild

Peter G. Fairchild
Principal Counsel

PGF:bjk

Enclosure

COMMENTS OF THE CALIFORNIA PUBLIC UTILITIES COMMISSION

ON THE

BPA HYDRO OPERATIONS INFORMATION PAPER

The paper is quite comprehensive and interesting. It would provide a serviceable summary chapter of a much larger report. The report describes, in an almost exclusively textual fashion, the model corrections, assumption changes and input updates that, together, result in the relatively benign results described with respect to anadromous fish impact. However, nowhere is there detailed data as to what the new and replaced data are, what justifications and explanations are associated with the changes in assumptions and what are the individual impacts of the modeling corrections and modifications. What are the key individual changes that modify the results so as to suggest essentially no impact on fisheries whereas in the June analysis a profound impact was found? No answer to this basic question is present in the report. Indeed, the only proffered additional information is the list of more detailed outputs listed in Appendix A.

It seems absolutely clear that an informed reader who was not intimately associated with the step-by-step modeling activities within BPA is wholly incapable of providing an informed evaluation of the correctness and/or appropriateness of the results presented in the report. In order to provide the possibility of an informed assessment of the adequacy of the IDU EIS, we recommend that a detailed report be prepared that provides the information necessary to comprehend the report. Questions delineated below indicate areas requiring substantial information supplementation.

TOPICS/DATA NEEDING GREATER ELUCIDATION:

Page 2:

What are the Bypass facilities that are assumed in this Information Paper? How are they to be installed, when and what will be their cost? What government agency(ies) must approve these facilities before they are built? What is the impact on the fisheries if they are not installed? Once bypass facilities are installed, is their success assured, or is there a range of possible impacts on 1) fish, 2) river operations and 3) electricity output? What is the impact on the various scenarios (including energy for the DC TEP and COTP both 1) available and 2) sold) if the

efficiencies of these facilities are either much greater or much less than assumed for the FISHPASS runs? What are the equivalent average megawatts of electricity not available for electricity generation due to the assumed bypass compared to without bypass?

Why is the Exportable Agreement now assumed to lapse? How much was BCH's access increased by this modification in assumption. Further, why in the old draft, was the Exportable Agreement assumed to operate when the California nonfirm energy purchase price was less than the BPA Standard Rate? Is the Condition 1 now invoked when the California purchase price is within 2 Mills/kWh of the bottom of BPA's non-firm rate range? If not, why not?

Page 4:

Please describe the origin of the assumptions underlying the treatment of the various scenarios of Firm Marketing. In particular, why should the expansion of intertie capacity automatically be associated with a 600 MW increase in firm sales? Why can the existing Intertie not carry the 3150 MW assumed only for the expanded Intertie? If it can, what is the maximum firm transfer capability that can be carried by 1) the existing Intertie (5200 MW), 2) the existing Intertie with the DC TEP (6300 MW) and 3) the Intertie with DC TEP and COTP (7900 MW)? Assuming the Intertie plus the DC TEP can transfer 5400 MW of firm capacity, why it is reasonable to assess the environmental impact (as done in the Information Paper) of incremental firm sales over COTP from 2550 MW to 3150 MW rather than 5400 MW to 6000 MW?

What is the mix of firm power sales, seasonal exchanges, capacity purchase and other transactions that comprise each of the three levels of marketing proposed: Base Contracts, Federal Sales and Assured Delivery? What is the impact in the difference in assumptions from the draft EIS "which considered only two firm sales levels -- existing firm contracts and new firm contracts"?

Page 5, Figure 1:

Why were only 20 of the possible 36 combinations of scenarios chosen for examination? Would the omitted scenarios have resulted in substantially different results?

Page 5:

How do the results of the SAM runs and, therefore, the FISHPASS runs change over the four discrete years examined. For example, is there one particular year that gives substantially less acceptable results of refill probability,

total hydro-generation or anadromous generation? More generally, results are needed by the ten full months and four one-half month periods for each of the years for each of the scenarios. These results will need to be organized in a fashion so that similarities and differences can be readily observed from month to month from scenario to scenario.

Page 6:

According to the study: "these benefits (due to the bypass system) are expected to substantially reduce ANY (emphasis added) impact of Intertie actions on anadromous fish stocks." In light of this statement, what is the degree of change in river operations required to see a substantial impact on fish stocks. (Please quote as written.)

Pages 6 & 7:

Provide a comparison of the shape of the California demand curve by month by year in the 1985 analysis and in the latest analysis that reflects an updated oil/gas price forecast and CFM 6 load forecasts.

In the preparation of the demand curves, what assumptions were made with respect to the rate design for utility natural gas purchases and, in particular, did the assumptions in any way match the two tier design recently used in California or as modified by the CPUC's latest Gas Rate Design OII/OIR decisions? Further, what level of qualifying facility (QF) generation was assumed by year by utility and what degree of dispatchability was assumed to be present in the QF contracts with the California IOUs? If the CFM 6 or ER 6 levels or QF maturation were assumed, how was the absence of any new QFs of over 50 MW present in the CEC resource forecasts adjusted for?

Page 8:

What documents from the Bureau of Reclamation were relied upon to intuit: " the intent of the Bureau of Reclamation ... to make such a change in its operating constraints". What is the impact on the findings of assuming that Grand Coulee could be drafted down to 1,250 as was assumed in the earlier study? Please also provide documentation on the monthly average change in available nonfirm generation due to the change in assumed minimum operating level of the dam.

Page 9:

Since the assumptions regarding the BPA nonfirm rate and its application vary with the economic inputs while the limitations on upstream drafts or marketing purposes in order to prevent forced spill in the lower Columbia are invariant under change in economic assumptions, is it not important to ascertain which of these sets of assumptions is responsible for the substantially reduced level of reservoir elevation drop noted in the Hydro-First policy simulations in the latest analysis? Without knowing the actual cause of the substantial change in results, how can you say: "We believe that the current study results more accurately reflect actual operations."

Page 10:

How much was the observed drop in hydro-generation attributable to the revised LTIAP noted in "the early years" and what was the monthly distribution of the reduced level of generation?

Page 11:

Why would the results of the current study indicate that total hydro generation will increase by from 200-250 aMW in the new maximum intertie case whereas, in the draft, the increase was only predicted to be about 160 aMW. What was the monthly predicted change in generation by year in the two sets of runs? If the 200-250 aMW is not all from conversion of spill, how much is from spill conversion and how much from coal, nuclear, qualifying facilities, and others?

Page 13:

According to the documentation results, only the first 40 SAM runs for each year were input into the FISHPASS model and, for each monthly average, a new daily flow was computed since FISHPASS operates on daily flow levels. What increase in uncertainty was caused by only using the first 40 of the 200 runs for each year? Further, and potentially more importantly, what distortion in results might have been introduced by using the average monthly flows instead of flows more symmetric with the actual time of most nonfirm sales; that is, during the on-peak periods during the business days? Would the use of historical flow shapes other than those for 1986 have given substantially different results? For instance, if flow shape observed in wet months and years were used for SAM runs for wet periods and the same for dry periods, would the results have changed substantially?

Page 19:

When will BPA decide what mitigation measures will be selected for the Lyons Ferry fall Chinook salmon stock? What is the maximum limitation that might be imposed upon the operations of hydro electric projects in order to tailor an appropriate spill to improve the stock's survival rate? What is the maximum reduction in hydro generation that could arise due to the mitigation procedures and what would be the shift in generation by period?

Page B-1:

What is meant by "a no action base case survival"? In the FISHPASS modeling, is bypass assumed in the base case or only in the alternatives?

Page B-4:

Some substantial changes are referred to in how BCH hydro is treated and, elsewhere in the study, discussion is also presented regarding the increased coordination on use of Canadian Columbia Impoundments. What is the actual change in the availability and utilization of the BCH generation from the draft to the latest version of the analysis? In particular, what incentives and/or agreements are assumed to be present with BCH to permit increased coordination between the parties?

OVERALL:

The study years in the draft EIS were 1987, 1992, 1997 and 2002 while in the latest version each of these years were incremented by one year. This process seems reasonable with respect to the first year of the simulation but for each of the three "out years" precludes a direct month-by-month comparison of results. In order to provide a meaningful comparison, it is appropriate and essential to run the new modeling inputs for at least one of the years previously analyzed to permit a complete comparison. Naturally, any meaningful changes in results between the draft and revised results should be explainable and should be explained in order to increase the reader's confidence in the results.

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Also logged
LTIAP-3-75

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PUBLIC INVOLVEMENT
LOG #: TIE-2-127
RECEIPT DATE:
DEC 31 1987
AREA: DISTRICT
D-3

VIA FEDERAL EXPRESS

December 30, 1987

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration - ALP
Federal Building East
905 N.E. 11th Avenue
Portland, Oregon 97232

Re: Comments on Hydro Operations Information Paper

Dear Ms. Geiger:

In response to the November 13, 1987 invitation of Bonneville Power Administration (BPA) to comment on its Hydro Operations Information Paper ("Paper"), Pacific Gas and Electric Company (PG&E) submits the following comments. PG&E does so in the context of our several previous written comments on BPA's Long-Term Intertie Access Policy (LTIAP) and the draft Intertie Development and Use Environmental Impact Statement (IDU DEIS).

PG&E is pleased that many of the changes BPA has made in modeling hydro operations address issues PG&E raised in its comments of January 14, 1987 on the IDU DEIS. However, while BPA has clearly made many improvements in the modeling of the power system as it actually operates, PG&E had some difficulty commenting on the substantive results.

BPA reported its assessment of the modeling results but explained many of the modeling changes only in very general terms and provided little information on which specific changes accounted for the changes in results. PG&E would have found it helpful if BPA had described further how the modeling changes had affected results, particularly compared to BPA's July 1987 studies. Therefore, PG&E's comments on the Paper are directed to specific modeling issues and necessary clarification of BPA statements.

Because PG&E cannot clearly understand the significance of the individual modeling changes on the results and on the

conclusions, PG&E requests that BPA's Record of Decision (ROD) on the LTIAP and the final IDU EIS further clarify the significance of key modeling assumptions. In addition, if addressing PG&E's comments on modeling changes has the potential to affect BPA's study results significantly, then BPA should make a further assessment and either identify possible impacts or demonstrate the absence of likely impact.

Comments on the ANALYSIS Section

Alternatives-Nonfirm Allocation. Under the Proposed Policy allocation method (Paper, pp. 3-4), BPA's model assumes that Condition 2 is in effect whenever the amount of surplus Pacific Northwest (PNW) energy equals or exceeds the scheduled Intertie capacity and Condition 1 is not in effect. Given the use of "likelihood of spill conditions" in defining Condition 1, BPA allows itself broad discretion to determine that Condition 1 is in effect. PG&E thinks that BPA's modeling understates the period during a year that both Conditions 1 and 2 are in effect.

In practice, PG&E has observed that BPA declares Condition 2 in effect during periods when the energy available to fill the Intertie can be sustained for the next day but not necessarily more than one day. If the demand in California is not sufficient to fully utilize the available surplus energy declared, then the unsold energy is carried forward to subsequent declarations. On the next day this unsold surplus energy, plus any newly available energy, may be sufficient to fill the Intertie PNW again. In this situation California faces a "rolling" Condition 2 even though the PNW cannot sustain sales over the Intertie at full capacity for more than a day or so. The result is that while BPA is ostensibly allocating the Intertie, it is in effect allocating the California market.

The fact that this takes place is demonstrated by data in the comments of the Montana Power Company on BPA's proposed LTIAP, dated January 16, 1987 (p. 58), which shows that BPA alone declared available over 6000 average MW in each month from August through December 1986. Yet BPA's sales averaged only 1400 average MW over the same period. Total Intertie sales during this period ranged between 3500 and 4000 average MW, with one month at about 2900 average MW. In addition, PG&E commented in its January 14, 1987 letter to BPA about the LTIAP that BPA had not addressed the issue of wasted allocations (p. 30). An allocation is wasted when a PNW utility does not make full use of its allocation and is unable or unwilling to let another party, BPA for example, use its reserved capacity. Thus, BPA's modeling of Condition 2 may grossly understate the degree of control which the IAP imposes on power marketing over the Intertie.

The ability of PNW utilities to declare surplus energy based on short-term deliverability seems to be missed in the modeling conventions BPA has used.

The effect of this variation could well be significant. The model may be showing far too few times when allocation methods (i.e., Conditions 1 and 2) are in effect. PG&E expects that the result would be to make the Proposed Policy closer operationally to the Hydro First policy and to increase the environmental impacts associated with the Hydro First policy. PG&E expects this because it presumes that increased use of the allocation methods will increase environmental impacts, given that the Pre-IAP scenario shows that nonfirm allocation-related impacts are minimized in an unrestricted marketing environment. Also, when the market is less than available Intertie capacity, hydro-based energy would fill the available market first. In addition, since some PNW utilities declare surplus energy from thermal sources that could not economically supply the market, more of the marketable supply represents hydro resources.

To capture this effect in the modeling, BPA should assume that Condition 2 can occur at levels of surplus energy availability well below Intertie capacity and even below the California market. Thus, the resource operation and marketing impacts under allocated conditions should be represented at surplus energy levels as low as 50% of Intertie capacity, to test for adverse impacts. In addition, BPA should further recognize that hydro-based energy will most likely serve the available market, particularly while oil and gas prices are low, so long as hydro conditions are not well below normal. To verify its study results, BPA should identify the time its models determine that Conditions 1 and 2 are in effect and compare this to actual results for similar circumstances. For example, while the period between September 1984 and December 1986 represents below average PNW hydro conditions, BPA data showed Condition 1 or 2 in effect over 80% of the time.

Alternatives-Firm Marketing. In its January 14, 1987 letter on the LTIAP, PG&E commented that BPA should include seasonal capacity exchanges in its modeling of interregional transactions (p. 32). At page 4 of the Paper, BPA states that the second level of long-term contracts includes "a variety of generic contracts." PG&E requests that BPA describe the amounts, types and terms of various power contracts assumed (e.g., firm power sales, peaking capacity sales, capacity for energy exchanges, seasonal power exchanges). BPA must demonstrate that either the type of contract makes no difference on environmental impacts or that BPA's generic mix reasonably approximates a worst case set for environmental impact.

The Pacific Northwest Utilities Conference Committee (PNUCC) already has identified contract types and amounts to give BPA guidance in its current study of the potential impacts of non-federal participation in the Third AC line. The scope of BPA's firm marketing environmental impact assessment should recognize the expressed marketing interests of PNW utilities. No utility should have to face the prospect that it could be denied transmission access for the transactions it desires because BPA failed to study it in its environmental impact review. Given what BPA knows about PNW utilities' expressed marketing interests, failure to study that pattern of transactions, unless BPA can clearly conclude that it is environmentally benign, would be a serious flaw.

BPA's ROD and IDU EIS should either unequivocally state that no transaction has been identified that causes significant environmental impact or BPA should identify any contract type and associated quantity that could result in significant environmental impacts.

General Analytic Structure. PG&E repeats its January 14, 1987 comment (p. 30) that BPA recognize and consider in its development of assumptions the limitations inherent in the modeling process. Actual operation of a power system involves the concurrent decisions of the many operating utilities in the PNW and California. Modeling the operation of this system should recognize a degree of utility independence, and BPA's formulation of assumptions should attempt to recognize possible associated impacts. Where necessary, BPA should use its best judgment to evaluate the effects of modeling limitations.

PG&E recognizes the complexity of the modeling process. There is both a risk of not finding a potential impact and, as here, finding an impact as a result of modeling errors. In its SL-87 rate projection studies, BPA found that the use of certain "seed" values in the System Analysis Model produced an aberration in the forecast. Here BPA's use of four selected forecast years suggests BPA ought to at least spot test other years to assure that results in one year are not due to something unique in the modeling for that year.

Changes in Analysis -- Draft EIS vs. Current Studies. It is apparent that the magnitude and substance of the changes BPA made to its modeling is great. PG&E appreciates that BPA has highlighted the changes it considers to have had the most effect. Review of the Paper would have benefited from additional discussion of how each change in isolation would have affected results.

PG&E is confused by BPA's statement that it selected for discussion "the changes that have been of greatest

importance in terms of their effect on the best study results." This suggests that BPA's evaluation centers on cases which already showed little impact. Of greater significance would be the changes that had the most effect on conditions previously identified (i.e., in the July 1987 studies) as having the most severe adverse environmental impact. Again, reviewers would be greatly benefited by discussion of how each change affected results.

McNary 100-Percent Flow Limitation. PG&E questions what this assumption means in terms of actual marketing impact. In particular, BPA describes this limitation as affecting "discretionary" nonfirm energy sales in winter through early summer. Does BPA's model consider a nonfirm sale in January or February to be discretionary, even though if such power is not sold it may be spilled later (i.e., in March or April)? Power is often marketed based on the perception of the future, and often this perception proves incorrect. PG&E wonders if in this case BPA is giving its model instructions to follow which would be implemented differently by its operations or if BPA's model uses perfect information to judge what actions to take. In particular, is a sale that looks discretionary to the model in reality a spill condition sale to the system operator who acts on the best information available at the time?

In addition, PG&E thinks BPA operators would likely find themselves faced with a decision either to draft reservoirs early to serve an available market or to take the risk that if they do not draft early (and accept forced spill at McNary), there may be a much smaller market or lower prices later (e.g., because California hydro is high). PG&E is not certain what magnitude of spill BPA operators might tolerate under such conditions, but recent experience suggests that BPA might operate aggressively with the expectation of maximizing revenue.

As PG&E noted in its January 14, 1987 comments, it is common practice in other BPA studies to test the sensitivity of key assumptions (p. 14). Because this assumption appears to be one of the most important, BPA should study at what point (i.e., what level of allowed spill at McNary) significant environmental impacts will occur. Then the likelihood of spill should be reassessed in light of the observations above.

Variable Nonfirm Rate. BPA should clearly describe how its variable nonfirm rate influenced modeling results compared with its predecessor. What operating changes resulted? Prior to implementing the variable rate, BPA had downward rate flexibility which should have provided the ability to respond to changing market conditions. BPA should also describe what the marketing and pricing logic is and (as

suggested in PG&E's January 14, 1987 comments at p. 30) provide an evaluation of how well this compares to experience.

PG&E is concerned that the nonfirm rate structure can dramatically affect marketing results. PG&E questions whether BPA's marketing logic used in the Paper, if it is based on maximizing revenue, assumes a degree of market knowledge not observed in actual practice.

Oil and Gas Price Forecast. BPA incorrectly characterizes the effect of lower fossil fuel prices on California utilities. Lower fuel prices do not reduce the demand or the market to displace oil and gas generation. While the price at which it is economic to displace oil and gas generation clearly changes, the quantity of such generation available for displacement does not change.

Comments on the FINDINGS Section

Hydroelectric System Operations-Analyses. As PG&E noted above, BPA should verify through spot checks that the four years chosen do not have any unusual characteristics that would make them poor representations.

BPA should describe some of the major limitations associated with its models (e.g., single utility operations) and attempt to choose assumptions that will not miss potential significant impacts. BPA should describe briefly the latitude that it has in actual operations that is not represented. In particular, BPA should describe how environmental concerns are addressed in the exercise of such latitude for system operations.

Effects of Nonfirm Allocations. PG&E appreciates BPA's description of the cause of the reduced environmental impact (i.e., nonfirm rate structure and reservoir drafting restrictions) but requests that BPA explain how the rate structure itself contributes to this effect. This finding suggests that BPA's nonfirm rate structure could affect the environment, with implications for whether BPA rate decisions merit findings of no significant impact.

At this time PG&E considers the actual environmental impact (excluding economic impacts) of BPA's current nonfirm rate structure to be undetermined. However, it is apparent that the effect of a rate structure on BPA's modeling studies used to predict environmental impacts could be significant.

BPA should explain why the Proposed Policy alternative produces a decrease in total hydro system generation. BPA should provide data showing the separate PNW hydro and thermal generation quantities and the prices at which power

is sold under each of the alternative cases. Because the operation of resources follows pricing, BPA should provide meaningful price information to allow reasonable review of these results.

One possible explanation for these effects may be that the change in rate structure has shifted BPA's marketing towards maintaining higher prices instead of maximizing surplus sales. This would explain the reduction in hydro sales and the reductions in total sales (determined from data BPA provided to PG&E) under the IAP alternatives cases versus the Pre-IAP cases.

Thank you for this opportunity to comment. Please let me know if you have any questions about these comments.

Sincerely,

Stuart K. Gardiner

RAB:gcw

cc: California parties

PNUCC

PACIFIC NORTHWEST UTILITIES CONFERENCE COMMITTEE

December 31, 1987

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #TIE-2-128
RECEIP
DEC 31 1987
AREA: DISTRICT
OP
CC: ALG
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Donna Geiger - ALP
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Portland, Oregon 97208-3621

Dear Ms. Geiger:

PNUCC submits the following comments on the Hydro Operations Information Paper. PNUCC is pleased that BPA has updated its analysis and revised its conclusions since July 1987. The data and modeling changes have improved the analysis to better reflect actual operation and coordinated planning. In evaluating both hydroelectric system operations and fisheries impacts, BPA concluded that the majority of the scenarios studied showed no potential for significant impacts. PNUCC agrees with these findings. We agree that comparing the relative decrease in fish survival due to any possible intertie decisions to the total increase in fish survival due to all Columbia Basin fisheries mitigation and enhancement measures including the Council's Fish and Wildlife Program is appropriate. However, as we have pointed out in our comments on the draft IDU EIS, the criteria for defining potential impacts remains, in our opinion, too narrowly defined given the accuracy of the available data.

Criteria for Significant Impact

The "flagging" criteria that BPA uses to determine potential impacts on survival of anadromous fish has not changed since the draft IDU EIS. Survival of a stock of anadromous fish is flagged as having potential significant impacts if: 1) a mean or median relative decrease in survival of greater than 1 percent occurs, 2) a relative decrease in survival greater than 5 percent in more than 5 percent of the 40 simulations occurs, or 3) a relative decrease in survival greater than 1 percent in more than 30 percent of the 40 simulations occurs. As PNUCC has argued in the past, the criteria used to identify possible impacts to anadromous fish are too narrowly defined given the accuracy of the available data. The precision of the modeling techniques used to estimate the fishery impacts far exceed the accuracy of the data on which the model is based. As a result, the wide variability of the model input data and the associated variability of the models' results are much greater than the significance of the small changes in fish survival identified by the analysis as possible impacts. The criteria for identifying possible impacts to the anadromous fisheries should have been set to reflect the limitations of the input data.

Comparison to Long-Term Benefits

BPA, in its analysis to determine possible impacts to anadromous fish, compared relative decreases in survival due to an intertie decision to the total stock benefit from the Council's Fish and Wildlife Program. PNUCC strongly supports this comparison of the long-term benefits of all Columbia Basin fisheries mitigation or enhancement measures to potential impacts resulting from use of the existing Columbia River hydro system for any energy management purposes including use of an expanded intertie. The relatively high values of program benefits that range from 1.8 percent to 69.6 percent compared to estimated impacts of less that 3 percent decrease in fish survival indicate that on a relative basis, the possible impacts of intertie use and development are not be significant. PNUCC still contends the FISHPASS model input data are so uncertain that BPA cannot estimate benefits or impacts with the accuracy suggested in the draft IDU EIS and the Information Paper. However, in this case where the results are compared in order of magnitude, PNUCC agrees that such a comparison can be informative.

Changes in Modeling

SAM and FISHPASS are the best tools available for estimating hydrosystem operations and fisheries impacts. PNUCC commends BPA for recognizing the errors in the earlier analysis and correcting these errors by updating and revising its analysis. The situation BPA is modeling is dynamic, and the data updates and model changes BPA has made reflect that situation. The analytical tools used by BPA are intended to be dynamic models that change continuously with new interpretations of the current situation. For example, we believe the California load forecast, and the latest gas and oil price forecasts are two cases of BPA updating the data to reflect the most current estimates of future conditions. It is, therefore, appropriate to make these changes as new information becomes available.

However, we believe that BPA's implication that the logic in SAM was responsible for the faulty simulation of regional marketing strategies in earlier studies is ill founded. We are convinced that the problems which arose in the earlier BPA studies were caused by inappropriate use of the model, rather than by any intrinsic flaw in the model's logic.

Mid-Columbia Modeling Assumptions

BPA has changed the mid-Columbia modeling to reflect the installation of mid-Columbia bypass systems and a new estimate of reservoir mortality. PNUCC supports including the installation of mid-Columbia bypass facilities in the current analysis. The installation dates BPA modeled for mid-Columbia bypass systems comply with the anticipated schedule discussed in recent settlement agreement The most recent documentation of the settlement agreement indicates that bypass systems will be installed by 1993 at the mid-Columbia projects. This change has improved the validity of the expected impacts to the mid-Columbia stocks considerably.

PNUCC finds no basis for the change in the estimate of reservoir mortality. Based on public comment from the draft IDU EIS, BPA has increased the estimated reservoir mortality at mid-Columbia projects from 0.7 percent per day to 3.5 percent per day. PNUCC finds no basis in the public comment to change fully established information. The 0.7 percent mortality per day is based on results from the report entitled: "Effects of Power Peaking on Survival of Juvenile Fish at Lower Columbia and Snake River Dams."

The study was conducted by Milo Bell in 1976 and addresses reservoir mortality in the mid-Columbia Reach from Rocky Reach to Priest Rapids. The report states that under high and low flow conditions with low nitrogen supersaturation the reservoir mortality was 0.7 percent per day. This is a documented result that has passed the normal rigors of scientific peer review and administrative procedures. It is not necessary for BPA to conduct more studies with the 0.7 percent value at this time since the sensitivity surrounding this number seems insignificant. However, unless BPA has stronger evidence than unsubstantiated public opinion for this change, the 0.7 percent per day is the best available scientific value for use in future studies for the reservoir mortality estimate in the mid-Columbia River.

Hydroelectric System Operations

The System Analysis Model (SAM) was used to determine changes in end-of-month reservoir elevation, probability of system refill, Columbia River flow levels, and total hydro system generation. In the information paper BPA summarized the changes to the operation of the hydroelectric system due to various intertie decisions, but did not evaluate all of the results. Any changes were well within normal operation of the system. In most cases there were no relative differences. In other cases the differences were small. For example, the change in end-of-month (winter through early spring) reservoir elevations at Hungry Horse and Grand Coulee due to effects of the nonfirm allocation options was a reduction of approximately 1 foot, and in a few cases 2 to 3 feet. On the average, this is less than 1 percent of the total reservoir operational drawdown range at Hungry Horse. A 1-foot decrease in reservoir elevation during the existing drawdown season is insignificant in seasonal real time operational forecasting. Therefore, from a planning perspective, the potential changes in operation identified by BPA are insignificant.

Impacts to Fisheries

BPA identifies three potential areas of possible impact from intertie development and use: 1) the migration of juvenile fish through the hydroelectric system to the ocean, 2) the spawning and emergence of fall chinook in the Hanford Reach of the Columbia River, and 3) resident fish in upstream storage projects. BPA concludes that only two areas will have potential significant impacts, the Lyons Ferry fall chinook and resident fish in Hungry Horse reservoir. In both of these areas BPA has suggested possible mitigation.

PNUCC believes BPA is wrong, first in its assessment of what is a significant level of impact, and second, in its suggestion of additional mitigation measures for possible impacts. First, as stated previously, PNUCC does not agree with the criteria that BPA uses to determine significant impacts. The criteria are inappropriate relative to the accuracy of the FISHPASS input data on which the impacts are based.

Secondly, the suggested additional mitigation measures are not justified. On a regional basis, the entire fisheries mitigation and enhancement measures on the Columbia River including the Council's Fish and Wildlife Program were developed in response to and is limited by the adverse fishery impacts associated with the operation of the Columbia Basin hydroelectric system. It was designed to mitigate for the full existing operational capability of the system, not just for a narrow range of operational parameters that currently exist. The modifications in intertie use and development will not cause

significant changes in the operation of the hydroelectric system, however, even if there were changes they would not require additional fisheries mitigation measures. The implementation of all Columbia River fisheries mitigation and enhancement measures including the Fish and Wildlife Program covers the full range of existing generation capability. If new storage or new generation is added to the system, then that increase in system capability would require mitigation in addition to the Fish and Wildlife Program.

Further, the possible reductions in fisheries survival (recognized as insignificant) that BPA has identified are, in fact, not true impacts. The impacts BPA is measuring are reductions of extra benefits from not operating the system at full capacity. The Columbia River fisheries mitigation and enhancement program was designed to mitigate for all fisheries impacts due to full operation of the system. Currently the system is not always operated at full capability. Consequently, the fish have experienced greater benefits than expected. Therefore, it is unnecessary for BPA to provide additional mitigation for reductions of these extra benefits.

Aside from our position that system impacts are covered by the Fish and Wildlife Program, the mitigation measures suggested for the Lyons Ferry stock, resident fish at Hungry Horse reservoir, recreational resources and cultural resources are not needed for the following detailed reasons:

Impacts to Lyons Ferry Stocks

The Lower Monumental fall chinook stocks that are identified in the information paper as possible impacted stocks are fish originating at Lyons Ferry hatchery. BPA indicates this stock is managed as a unique population and it could be potentially impacted. BPA suggests possible mitigation measures in response to estimated impacts. BPA should not include Lyons Ferry stock as an impacted stock due to the intertie use and development. First, they are not unique in a biological perspective like a wild stocks and, second, fluctuations in the stock's population are influenced more by the hatchery management practices than by possible impacts resulting from the intertie use and development.

Hatchery fish, especially the fish already designated to mitigate for hydroelectric system impacts, should not be included in the same rubric as natural or wild stocks. As hatchery fish they do not have the claimed intrinsic value based on their genetic distinction as does a wild stock. Therefore, the impacts to the Lyons Ferry stock should not require mitigation on the basis of compensation for impacts to a "unique" stock.

The brood size and ultimate adult production of the Lyons Ferry stock are determined by management decisions and operational practices. Minor changes in the management or operation of the hatchery have a far greater influence on the hatchery population than the impacts indicated in the information paper. Normal operational decisions such as the fall egg take numbers, daily food rations, and the hatchery release date greatly influence the initial number of smolts produced and the survival of the smolts during their outmigration. Indeed, minor decisions concerning the Lyons Ferry hatchery budget have greater impacts than 1 or 2 percent of the hatchery's production. Therefore, possible decreases in survival ranging from 1 to 2.6 percent of the juvenile population, as identified in the information paper, are unquestionably insignificant to a hatchery stock relative to the hatchery management practices. For this reason, and the lack of genetic

distinction, the Lyons Ferry stock must not be included in the information paper as an impact concern for the intertie use and development.

Resident Fish at Hungry Horse Reservoir

BPA has suggested in the interpretation of the results of its analysis that there is potential for impact to resident fish in Hungry Horse reservoir. There are two reasons additional mitigation is not required: 1) As the information paper points out, no changes in operations are planned at Hungry Horse as a result of any intertie decisions. All changes in fall reservoir levels predicted by SAM in this study are within the current operational constraints. In addition, any possible impacts to resident fish within these operational constraints are being considered under an existing mitigation planning process. 2) The Council rejected a proposal altering operation for Hungry Horse because it was impractical to further restrict operation. The State of Montana, under contract to BPA, is currently investigating impacts to resident fish in the reservoir, under the full range of operating constraints. Preliminary results of Montana's study indicate that fish productivity is primarily sensitive to the timing of drawdown, as opposed to the magnitude of drawdown. A plan for mitigating operational impacts to resident fish will be submitted for consideration in the summer of 1988. The state tentatively expects to include proposals to plant cutthroat trout in the reservoir, to enhance spawning and passage habitat, and to contribute to mitigation options below the dam. Montana proposed changes in operation as mitigation. However, the Council rejected the proposal because it was impractical to further restrict operation. Unless BPA expects to propose changes in operational constraints at Hungry Horse as a result of any intertie decisions, or the study results show that drawdown does not occur any earlier than in the base case, considerations for additional mitigation are unnecessary.

Recreational and Cultural Resources

PNUCC agrees that there are no significant impacts to recreational resources. However, we disagree with BPA's conclusion on cultural resources. The major damage to cultural resources would have occurred, and been mitigated for, when the dam was built and the reservoir filled. Any such plans, if they were necessary, should have been developed as a result of the construction of the reservoir. It is inappropriate for BPA to suggest that they enter into memorandums of agreement to develop comprehensive archeological plans for each reservoir. Such responsibility, if it remains unaddressed, rests with the project owners and not BPA.

Additional Analysis

There is no need for further analysis concerning the IDU EIS. BPA has done a commendable job in revising and updating SAM and FISHPASS data. As the result of these revisions, the output is adequate to finalize the IDU EIS. Further, since additional work only included updating and revising the analysis and no new information was provided, there is no need to redraft the IDU EIS.

Conclusion

Overall, BPA has done a good job of further addressing the issues raised in the draft IDU EIS. PNUCC agrees with the majority of BPA's findings. The following is a summary of PNUCC's major points:

- The flagging criteria for potential significant impacts are too restrictive.
- We strongly support the method of comparison of the long-term benefits of all Columbia River fisheries mitigation and enhancement measures including the Fish and Wildlife Program measures to potential impacts of intertie use.
- We commend BPA for updating and revising this analysis.
- We support including installation of mid-Columbia bypass facilities in the current analysis.
- There is no basis for changing estimates of reservoir mortality in the mid-Columbia reach.
- Potential changes in hydroelectric operations identified by BPA are insignificant.
- The suggested additional mitigation for fisheries are not justified.
- Lyons Ferry stocks are not genetically unique and do not require mitigation.
- Additional mitigation for resident fish at Hungry Horse is unnecessary.
- Cultural resources were mitigated for when projects were constructed or, if not, it is the responsibility of the project owner and operator, therefore, BPA should not assume this responsibility.
- Additional analysis is not necessary to finalize the IDU EIS.

Thank you for this opportunity to comment.

Sincerely,

Al Wright
Executive Director

SM101



RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # TIE-2-129
RECEIPT #
DEC 31 1987
AREA: (OWJ) W
DISTRICT (OWJ) WL
CC: PJI, ALG } FYI

December 28, 1987

Department of Energy
Bonneville Power Administration
Public Involvement Manager
Post Office Box 12999
Portland, Oregon 97212

RE: Hydro-Operations Information Paper Intertie Development And Use Environmental Impact Statement Information Update AND REQUEST FOR COMMENT

As a non-profit organization representing over 2,000 Idahoans WE wish to register with you the following comments on the above referenced document.

Our overall impression of the document is that BPA is taking proposed changes in production, transportation bypass, sliding scale spill and revised water budget logic that is contained in the revised Columbia Basin Fish and Wildlife Program for the purpose of increasing overall anadromous fish run size and using them to compensate for the increased mortality caused by the new intertie proposals.

The Northwest Power Act mandates "equitable treatment" of fish along with other project purposes as is stated in the document. The first inaccurate assumption is that this has taken place. It has not. CBFWP gains in fish numbers are a "given" according to the Act not a gift from hydro operators that can be taken away in the name of increased revenue.

BPA's own first environmental assessment stated four stocks in the basin would be damaged by the intertie proposals. After correcting errors in that computer model BPA reported seven stocks would be damaged. The next assessment, again after corrected errors in the model claimed forty stocks would be damaged and now, finally, after all the errors have been corrected, the CBFWP increases are plugged in and only two stocks will

EXECUTIVE DIRECTOR
ISSO
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POST PRESIDENTS

Continued...

suffer.

There is far too much uncertainty to rely on BPA computer models for smolt safety in the Columbia Basin particularly in view of past oversights.

The document assumes bypass will be totally funded which it has not been. It assumes production increases will continue -- of which there is no guarantee. It assumes sliding scale spill ("share the wealth") will be implemented even though BPA would not agree to sliding scale spill in a recent court settlement. It also assumes an improved revised water budget logic which is unproven. It characterizes transportation to be the means to solve all outmigration problems which it is not for all species and then states returning adults get lost. However, assume all these things happen on time and damaged stocks go down from forty to two by 2003.

BPA's own Chief of Fisheries Integration recently submitted an affidavit in a court proceeding stating Idaho did not care about wild/natural fish. Yet this document advocates as "highly cost-effective" additional hatchery production of Fall Chinook in Lower Monumental Pool to mitigate for additional losses in the pool caused by intertie proposals. What about the Wild Fall Chinook that made it above Lower Granite Dam this year into Hell's Canyon? They have to outmigrate through Lower Monumental as well and they are not even mentioned. What about Wild Steelhead, Summer Chinook and Wild Spring Chinook that in normal flow years are not transported? Apparently we need another model that takes Idaho stocks both wild/natural and hatchery into account. We are not designing the models but at least we know these stocks exist.

The last alarming assumption made in the document is that the economics of intertie are "cast in stone". Nothing could be further from the truth. We and our legislators have to "pull teeth" to get a $10 million dollar appropriation for bypass which HAS PROVEN benefits because it adds to a rate base and temporarily (20 years) to a deficit. Yet the DC intertie alone costs $105 million dollars and cost benefits have not been done in over a year of failing energy

Re: Hydro-Operations Indormation Paper Intertie Development And Use Environmental Impact Statement Information Update AND REQUEST FOR COMMENT

Continued...

prices. Rate payers and fish will pay for intertie whether it is utilized or not. Past operation of the hydro system does not lend credibility to BPA's contention that expanded transmission capacity will not be utilized in low flow years.

In closing we find the document in regards to anadromous fish to be extremely hollow. The assumptions used to justify expansion have very little resemblance to reality. The juvenile anadromous fish to be sacrificed in the name of intertie expansion are not BPA's to sacrifice. We can not even begin to comprehend how a model "of the system" much less a paper of this magnitude could be put together with zero information on Idaho anadromous stocks. This alone underscores the inadequacy of the document. It appears to us the model was constructed to justify a preconceived plan to expand intertie lines. With no better information than is reported in the document and particularly with the obvious lack of knowledge concerning Idaho stocks we do not feel we can support any expansion of transmission or generating capacity much less the conclusions drawn by the document.

Sincerely,

IDAHO STEELHEAD & SALMON UNLIMITED

Dan Magers

Dan Magers
President, for ISSU Board of Directors

cc: Governor Cecil Andrus
Attorney General Jim Jones
Assisstant to Attorney General Will Weyland
Senator Jim McClure
Senator Steve Symms
Representative Larry Craig
Representative Richard Stallings
Northwest Power Planning Council Bob Saxvic
Northwest Power Planning Council Jim Goller
Idaho Fish & Game Department Jerry Conley
Idaho Fish & Game Department Dave Hanson
Idaho Fish & Game Department Dexter Pitman
Columbia River Inter-Tribal Fish Commission



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RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: TIE-2-130
RECEIPT DATE: DEC 31 1987
AREA: DISTRICT WL (OWL)

Public Involvement Manager
Bonneville Power Administration
PO Box 12999
Portland, Oregon 97212

December 29, 1987

RE: Hydro Operations Information Paper

PIM:

CC: PJI

These comments are offered for the record regarding the Hydro Operations Information Paper, Intertie Development and use Environmental Impact Statement Information Update and and Request for Comment.

General Comments

o Since 1978 the Northwest Resource Information Center has argued that increased NW-SW intertie capacity "...could create new opportunties for innovative future means of juggling inter-regional energy (water) transfers to help accomodate the main-stem flow needs of upper Columbia Basin salmon and steelhead."[1]

In January 1987 comments on the Intertie Development and Use Draft Environmental Statement we argued, "With the proper safeguards, and developed as an integral part of a Columbia River Basin-wide plan to cogenerate anadromous fish and energy, expanded intertie capacity and expanded markets for energy surplus to our region's needs could play a pivotal role in meeting the fish protection mandates of the Northwest Power Act and pre-existing obligations. In that event, expansion of intertie capacity and requisite access policies would command my support and, I'm confident, support of people througout the region."

In May 1987 I argued, "That fishery interests resist expansion of surplus power sales to the Southwest is potentially instructive. Given the proper safeguards, i.e., assured main-stem flows and minimum fish survival rates, they would champion expansion of energy export facilities. Increased sales of energy surplus to the region's needs would improve Bonneville's economic performance, a universally beneficial result for the region and nation, and aid in financing the Fish and Wildlife Program to redress fish and wildlife losses from construction and operation of the federal hydroelectric system."[2]

In short, the NRIC is not peopled by anti-power export Luddites.

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[1] A Question of Balance, Water/Energy - Salmon and Steelhead Production in the Upper Columbia River Basin. Northwest Resource Information Center, Inc. November 1978.

[2] Cogenerating Columbia River Salmon and Hydropower. American Society of Engineers. May 1987.

o The NRIC previously has commented on numerous NW-SW intertie initiatives by Bonneville which without safeguards individually and cumulatively could undermine survival of certain wild populations of chinook salmon and steelhead trout and dependent economies in Idaho and other areas of the upper Columbia River Basin. Bonneville's repeated lack of responsiveness to the expressed concerns resulted in State of Idaho v. Herrington, Nos. 86-7704 and 7705 and the NRIC's intervenor status before the Ninth Circuit Court of Appeals.

In the Brief of Idaho Intervenors we basically argued: (a) Bonneville's proposed expansion of NW-SW intertie capacity and concommitant out-of-region power sales failed to address the potentially significant impact on Idaho's fragile wild anadromous fish stocks and dependent economies; (b) that BPA wrongfully applied a computer model unsuited to determining effects of hydro operations on fragile wild stocks to conclude the effects would be small and not significant; (c) that by segmenting its analyses of the multiple, interrelated parts of its out-of-region power sales, Bonneville masked the individual and collective impacts on Idaho's wild fish and dependent economies, precluded development, analysis and public debate of alternatives and potential mitigating measures, and thereby, violated the National Environmental Policy Act.

In an order dated October 6, 1987 the court directed BPA to prepare an EIS on "the DC expansion Project, the impact of tying in the DC Expansion Project to the AC Expansion Project, and the new contracts marketing arrangements involving power to be transmitted to the Southwest with appropriate power usage." BPA was ordered to "consider alternatives in addition to not going forward with the project, including mitigation of damage to the environment."

In the Hydro Operations Information Paper Bonneville purports to comply with the court's order. Instead, Bonneville perpetuates and magnifies the problems that led to the order. In sum, the paper:

(1) Continues to ignore the critical, fragile wild stocks of Idaho anadromous fish and dependent economies which could be jeopardized by Bonneville's proposed actions;

(2) Continues to rely on a computer model that was never designed to and cannot predict the impact of very small changes in uncertain future hydro operations on anadromous fish stocks - representing irreplaceable genetic resources - that chronically hover at replacement levels due to past and present hydro operations;

(3) Continues to compound the already incomprehensible segmentation of interrelated actions, which among other things, frustrates identification of potential impacts, precludes development of alternatives to avoid or mitigate those impacts, and effectively prevents constructive public involvement in regional policy making of major, long-term, biologic and economic import.

Ironically, Bonneville rationalizes its decision to put out the Hydro Operations Information Paper and update its earlier draft IDU EIS, instead of a proper, comprehensive, new draft EIS, because the results of a new set of computer simulations were similar to the initial results that were challenged and resulted in the court order for a new EIS.

Therefore, I wish to incorporate into these comments by reference NRIC's January 16, 1987 comments on the Intertie Development and use Draft Environmental Statement, our August 5, 1986 comments on the Supplemental Environmental Assessment, Terminal Expansion, July 1986, our April 3, 1987 Brief of Idaho Intervenors and related memoranda and affadavits in Case Nos. 86-7704 and 86-7705 before the Ninth Circuit Court of Appeals.

Specific Comments

Page 2, footnote 1

Here Bonneville states that incorporating the results of new computer simiulations (in the Hydro Operations Information Paper) into a pre-existing draft IDU EIS "...satisf[ies] the directives of the court in State of Idaho v. Herrington." We disagree.

The draft IDU EIS was deficient vis a vis Idaho wild stocks of anadromous fish and dependent economies. It also was devoid of consideration of alternatives and mitigating measures to protect Idaho interests against the risks inherent in Bonneville's reliance on unproven assumptions and computer simulations. These deficiences cannot be remedied by simply inserting the Hydro Operations Information Paper into the Final IDU EIS as proposed by Bonneville.

The draft IDU EIS is a good place to start compliance with the court's order. As we suggested in our January 1987 comments on the draft IDU EIS, Bonneville should build on the substantial effort represented in the draft IDU EIS, encompass all related actions, work with Idaho interests to develop specific alternatives and mitigating measures that protect Idaho's interests, and re-issue it in draft. In our view this is the minimum required by the court's order, the minimum necessary to break the destructive gridlock of fisheries and energy export interests, and could lay the groundwork for a more enlightened approach to using interregional power exchanges to meet regional obligations and benefit both regional energy and fisheries interests.

Page 9, paragraph 3

"The model results necessarily reflect a great number of assumptions. In reality, there is more latitude in actual operations than is represented in the model. In addition, future conditions will probably differ from the assumptions to some degree. Thus, the model results are useful for comparative purposes. However, actual future operations may differ from model predictions."

This statement in the Hydro Operations Paper clearly outlines the limitations of the SAM model. It comes as close as Bonneville has yet dared to stating that the model was designed to simulate for comparative purposes the gross implications of very broad changes in hydro system operations. These simulations are then input to yet another computer model, FISHPASS, with its own sets of assumptions, and out comes: not qualified, broad, systemwide predictions, but stock-specific precision of near astronomical porportions (and kierkegaardian dimensions). I.e., projections that Idaho spring and summer chinook stocks, which chronically are at or below replacement levels, would suffer at worst a 0.1% decrease in relative mean survival through the hydrosystem under all alternatives evaluated by Bonneville.[3]

Apparently mesmerized by this illusion of precison, Bonneville proceeds to compound its error by speculating: a) that its projected worst-case decrease in mean survival is not significant, and that in any event, b) any decrease would be offset by proposed improvements in survival projected to result from future improvements in juvenile bypass facilities at hydroelectric projects under the Columbia River Basin Fish and Wildlife Program, but that, c) for any adverse impacts requiring it, transportation and additional hatchery fish offer means of mitigation.

In short, we disagree on all counts. First there is no evidence to suggest anything other than that any decrease in survival of stocks chronically hovering at or near replacement levels is not only potentially significant, but potentially critical. Second, Idaho chinook stocks of concern have not yet responded conclusively to initiatives taken pursuant to the Columbia River Basin Fish and Wildlife Program. And there is evidence to suggest past and approved future program initiatives are not sufficient to reverse the precarious condition induced by past hydrosystem operations. Third, there is no conclusive evidence that transportation is an effective tool to mitigate for the effects of adverse passage conditions on these stocks. And further, increased hatchery production is not mitigation, but potentially a threat to these troubled wild stocks.

Importantly, all Bonneville's Intertie study alternatives use a no-action, status quo base condition as a benchmark against which to compare simulated relative changes in fish survival. This ignores the fact that the current precarious condition of Idaho chinook stocks is in largest part the direct

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[3] BPA discussion paper 3717N Intertie Development and Use - Idaho Fish Stocks. Idaho spring and summer chinook stocks are not specifically mentioned in the Hydro Operations Information Paper, although these and remnant fall chinook stocks are the most vulnerable to small changes in hydro operations. Indeed, Bonneville appears to have gone to extraordinary lengths to avoid the stocks of most concern to Idaho. This is apparently rationalized with the assertion that expanded intertie operations per se have the potential to affect only summer migrant juvenile fish. This is an assumption and an assertion that cannot be validated in any of Bonneville's analyses todate, nor elsewhere.

result of the hydro operations status quo which is under increasing attack by fisheries interests.

Perhaps most important, Bonneville does not offer for analysis even one alternative that would, through constraints on intertie operations and/or other mitigating measures, protect Idaho's fragile chinook resources and related economic interests from the obvious risks in relying on computer simulations of projected hydro system operations that in reality "...may differ from model predictions."

Conclusion

These comments do not suggest Idaho's chinook salmon and related economic interests are at impasse with expanded intertie capacity. To the contrary, as belabored at the beginning of these comments, it is our long-held view that intertie expansion, properly configured and constrained to meet regional fisheries obligations, could be an asset to Idaho's interests.

By design or default, Bonneville's segmented approach to NEPA analysis, apparent short shrift to troubled Idaho chinook stocks and dependent economies, and apparent preoccupation with inscrutable computer simulations that appear to defy logic, have created a climate of uncertainty and fear that feeds internecine conflict between fisheries and expanded intertie advocates.

We believe a way out is easy at hand. One repeatedly recommended by us and others. It has the additional attribute of being required by law. Bonneville should build on the considerable work done to date on all the initiatives related to hydro system operations and interregional energy exchanges. Work with Idaho's public, private and tribal fisheries interests to develop an comprehensive alternative for intertie development and use that protects Idaho's interests. Redo and reissue the draft IDU EIS. The promise is consensus on a mutually beneficial approach to cogenerating hydropower and fish as long envisoned by the people of the Northwest and reaffirmed by the Pacific Northwest Electric Power Planning and Conservation Act of 1980. The likely cost of failing to do so is unremitting internecine regional conflict.

Sincerely,

Ed Chaney
Director

NATIONAL WILDLIFE FEDERATION

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503-222-1429

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: TIE-2-131
RECEIPT DATE:
DEC 31 1987
AREA: DISTRICT
L
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CC: PJI

December 31, 1987

Donna Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Re: Comments Upon The Intertie Development And Use EIS -- Hydro Operations Information Paper -- Information Update

Dear Ms. Geiger:

The Hydro Operation Information Paper is woefully inadequate and can not substitute for an EIS. Generally, it provides little or no analysis on economic impacts, mitigation measures, and/or alternative consideration. It contains no references or bibliography. It is also written, unfortunately, utilizing extensive power industry jargon. Only members of the public with substantial energy background could comprehend this document.

In the introduction to its Hydro Operations Information Paper (HOIP), BPA states it hopes to accomplish two things by its publication: (1) to explain and seek comment on its modeling procedures, and (2) to seek comment on its own substantive conclusions on potential impacts to Pacific Northwest fish populations and other resources. Neither of these ideas can be meaningfully commented upon by review of the HOIP. Rather, the HOIP is a listing of BPA modeling conclusions, without meaningful information which the public can utilize for comment purposes.

In particular, there are constant references to data that was produced or used by BPA modeling programs. Nowhere is that data supplied for independent reviewer comment. There is no information on fish guidance effectiveness, fish bypass construction schedules, the upcoming annual U.S. Corps of Engineers Spill Program, and the continuation of spill after bypass installation. Benefits to result from the fish programs are unsubstantiated. For example, BPA refers in its Mid-Columbia Bypass section (pp.6-7) to projected fish increases of 40 percent between 1988 and 2003. Therefore, "decrements in survival of 1-2 % expected under some Intertie alternatives are judged not to be significant." BPA does not state, however, where it came up with the 40 percent increase figure, nor under what specific Intertie alternatives do the 1-2 percent decrements occur.

The closest BPA comes to admitting that its modeling programs may not accurately reflect the future is its disclaimer found in the Findings Section (p.9):

The model results necessarily reflect a great number of assumptions. In reality, there is more latitude in actual operations than is represented in the model. In addition, future conditions will probably differ from the assumptions to some degree. Thus, the model results are useful for comparative purposes. However, actual future operations may differ from model predictions.

The bottom line is that BPA's Intertie expansion program is a very significant agency decision with the potential to severely impact the Pacific Northwest's fishery and wildlife resources. Production of documents such as the HOIP will only frustrate all the parties and create endless litigation work for the attorneys.

Thank you for the opportunity to comment.

Sincerely,

Roy E. Elicker
Counsel

RE/bas

Hand-Delivered

Southern California Edison Company

P. O. BOX 800

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ROSEMEAD, CALIFORNIA 91770

ROBERT W. KENDALL
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LOG #: TIE-2-132
RECEIPT DATE:
DEC 31 1987
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December 28, 1987

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P. O. Box 12999
Portland, Oregon 97212

Dear Ms. Geiger:

Subject: Bonneville Power Administration
Hydro Operations Information Paper
Reference: PGC

In November, Bonneville issued its Intertie Update: Hydro Operations Information Paper for public review and comment. BPA established December 31, 1987 as the deadline for receiving comments. Southern California Edison Company's comments on the subject document are attached.

RW Kendall/cec

R. W. Kendall

Attachment

COMMENTS OF THE SOUTHERN CALIFORNIA EDISON COMPANY
REGARDING THE HYDRO OPERATIONS INFORMATION PAPER

I. General

1. The following information needs to be added if the document is intended to qualify as a supplemental Environmental Impact Statement (EIS). If the document is not meant to qualify as a supplemental EIS the information would still be helpful.

   a. The cover sheet needs to have added a list of responsible agencies, a description of the proposed action, and a designation as to whether the document is draft or final;

   b. A list of preparers;

   c. A list of agencies, organizations and persons to whom copies of the statement are sent;

   d. An index.

II. Analysis

1. Changes in the Analysis Between Draft EIS and Current Studies

   This section, on page 6, should reference Appendix B which explains these changes in assumptions and in computer logic.

III. Findings

1. Hydroelectric System Operations: Effect of Intertie Capacity

   On page 11, the last paragraph describes how the hydro generation increases with increased Intertie capacity. A more detailed quantification of these effects would be helpful. We recommend the addition of a table comparing the new results with those shown in Table 4.2.3 of the original draft IDU/EIS.

IV. Appendix B

1. Changes in Assumptions: Introduction of New Resources.

   Paragraph 6 on page B-4 describes the introduction of new resources into the analyses. We recommend the inclusion of a table showing how these new resources come on line in this analysis.

2. Changes in Assumptions: Initialization of Centralia Coal Pile Logic.

   Page B-5, Paragraph 1, states that when the plant does not operate for a prolonged period of time, the coal pile becomes too large and the plant is then placed on must-run status. The term "too large" needs to be defined.

3. Input Data Updates:

   Oil and Gas Price Forecast; California Load Forecast; Variable and Fixed Operating Costs of Existing Resources; Rates for Nonfirm and Firm Surplus; and PNW Load Forecast.

   All these sections (paragraphs 5 & 6 on page B-5 and paragraphs 3, 4, and 5 on page B-6) need tables comparing the inputs used in the original IDU/EIS and the inputs used in these new analyses.

Montana Department of Fish, Wildlife & Parks

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December 18, 1987

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Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
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Portland, OR 97212

RE: Comments on the Hydro Operations Information Paper

Dear Ms. Geiger:

We have completed reviewing the "Hydro Operations Information Paper" which reviews the effects of the Intertie Development and Use (IDU) on the operation of Libby and Hungry Horse reservoirs. We are concerned that the actual effects of the IDU upon reservoir operation will be much greater than predicted. Our concerns are based on the understanding that the SAM model predictions are only directional and not absolute. The many assumptions and variables in the model preclude the output from being precise estimates of elevation changes caused by the IDU. Thus, the output is directional at best and realized changes in reservoir elevation will probably vary markedly from the estimate. In addition, the impact of the IDU development upon reservoir elevation appears to increase through time as load demand increases. Increases in the load results in hydropower being used more to meet firm loads in the fall and subsequent drafts of reservoir water to meet these demands.

The IDU development has the potential to adversely affect the productivity of both reservoirs for salmonids. We are concerned with results of the SAM model which predict that the Hydro-First option will result in mean reservoir elevations up to three feet lower than base case from September through November in Hungry Horse Reservoir. The Federal Marketing and Assured Delivery options for firm load marketing will also result in lower mean reservoir elevations in the fall of up to four feet in HHR. The actual changes in reservoir elevation could be much more, because of the reasons noted previously.

Project 83-465 on Hungry Horse Reservoir and other studies have indicated the importance of the shallow near-shore, or littoral areas, for trout food production and habitat. The dewatering of the littoral zone in the fall in Hungry Horse Reservoir and subsequent loss of benthic insect production and littoral habitat for westslope cutthroat trout has reduced the growth and survival of this species. The period from September through November is an important season for fish growth, with cutthroat achieving almost 60 percent

of their annual biomass increment during this period. Thus, deeper drafting of the reservoir during this critical growth period can only further reduce game fish production.

We have developed interim guidelines for pool fluctuation which will protect the fisheries in both reservoirs. These guidelines were prepared specifically for the SAM model at the request of Jim Gieselman. From December through March, we recommend a mean end of month reservoir elevation change of less than five feet below base case with a maximum decline of ten feet occurring with a frequency of only once in ten years. During the period from April through November when the reservoirs are biologically active and nearly all of the productivity occurs, our guidelines are much tighter in order to enhance the production of game fish. For this time period, we recommend that mean end of month reservoir elevation changes be less than two feet below base case with a maximum change of five feet occurring only once in ten years. No decreases in reservoir elevation below base case should be allowed in any months in which the elevation is at or below the recommended maximum drawdown. The maximum recommended drawdowns are 85 feet for HHR and 110 feet for Libby Reservoir.

The current base cases for reservoir operation are not ideal for production of game fish. Thus, our recommended guidelines are preliminary and subject to modifications upon completion of the predictive fisheries models which are currently being developed by MDFWP. Projects 83-467 and 83 -465 will quantify the effects of Libby and Hungry Horse dams on the reservoir fisheries. Recommendations for dam operations which incorporate fishery rule curves will be forthcoming in July 1988. It would be beneficial to reevaluate the IDU in light of dam operation effects after this information is available.

Finally, we are concerned that the IDU is removing flexibility from reservoir operation prior to the completion of the reservoir studies and the development of our recommendations. The removal of flexibility especially in the critical fall period will reduce our opportunity to improve game fish production through modifying reservoir operation.

We appreciate the opportunity to review the IDU and hope you incorporate our comments in the development of the final plan.

Sincerely,

Larry Peterman

Larry Peterman
Bureau Chief
Research/Special Projects
Fisheries Division

LP/BM/fs

c: J. Fraley
B. May

United States Department of the Interior

BUREAU OF RECLAMATION
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IN REPLY REFER TO: PN 150

DEC 23 1987

RECEIVED BY EPA
PUBLIC INVOLVEMENT
LOG # T1E-2-134
RECEIPT DATE:
DEC 31 1987
AREA: DISTRICT
WL
(COWL)
CC: ALG
PJI

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

Dear Ms. Geiger:

We have reviewed the "Hydro Operations Information Paper" provided by your letter of November 13, 1987. The following comments are provided for your use in preparing the final environmental impact statement on the proposed Intertie Development and Use (IDU-EIS).

General

Hungry Horse Reservoir Operations: Any operational alternative that reduces the potential for Hungry Horse Reservoir being full during the summer months (July and August) is viewed as having negative effects on the quality of the recreational experience at that reservoir. We note that the Hydro-First alternative under the Nonfirm Allocation case has a "lower refill probability in some years" which of course would jeopardize having a full reservoir during the summer. Not only does this imply an increase in recreational impacts, but it also appears not to be in accord with existing operating agreements.

The summer elevations are also "slightly lower" at Hungry Horse under the Firm Marketing case. The IDU study indicates that maximum summer mean end-of-month elevation changes of 2 or 3 feet occur at the end of August for the Firm Marketing cases. This will not only affect reservoir recreation, but will also have a definite negative impact on downstream river recreation if discharges from Hungry Horse to achieve a 2 or 3 foot reservoir draft occur during the summer.

We again emphasize that discharge from Hungry Horse Reservoir on weekends or holidays between mid-June and Labor Day must be limited to releases needed to meet minimum fish flow requirements. This is a firm constraint and must be factored into the intertie expansion studies as well as the annual operating plans.

Grand Coulee Dam and FDR Lake Operations: The information paper does a good job of explaining the range of potential impacts to recreation as a result of reservoir operational changes. It identifies activities which would be directly affected by this proposal, such as boating, swimming, and waterskiing.

It also mentions activities which would be indirectly affected, such as camping, picnicking, sightseeing, hiking, etc. It discusses downstream activities which would be influenced by short-term changes in reservoir discharges. However, it does not specifically describe how, when, and where these activities would be affected. Such a description is needed to effectively evaluate the proposal.

Specific

Page 8, fourth full paragraph: Some assurance is needed that the Bonneville Power Administration (BPA) would continue to operate within the operating criteria established by the Pacific Northwest Coordination Agreement (PNCA). It is unclear that the studies discussed in the information paper comply with PNCA procedures. For example, it is not clear how refill criteria were established or applied in these studies. In the draft studies, refill was defined as reaching 85 percent of full, while the new studies use 94 percent of full. There is no explanation given for not using 98 percent of full for defining refill, which is the PNCA understanding of the term "refill."

Page 23: The information paper indicates that the proposed long-term contracts would adversely affect resident fish at Grand Coulee and Hungry Horse. There is no explanation why Hungry Horse is drafted up to 15 feet lower from their base case studies. If the System Analysis Model (SAM) can produce this additional Hungry Horse draft from an operation that already maximizes energy production, an explanation of the level of firm market being studied is needed. For the annual operating plan, Reclamation submits refill points which maintain the refill probability defined in the Corps' refill studies for Hungry Horse and Grand Coulee. These refill points also limit the amount of first year firm energy load carrying capability (FELCC). The SAM studies appear to erode the refill probability of Hungry Horse and Grand Coulee and raise questions as to the amount of firm market being served. If the studies reflect some new level of future operations, Reclamation will have to determine if new nonpower constraints are needed in order to maintain current reservoir drawdown levels and refill probabilities.

Page 24, last paragraph, next to last sentence: The reservoirs for which these constraints have been developed should be identified. In the last sentence, "when possible" should be defined to provide an understanding of exactly when and where discharges will be held to enhance downstream fishing.

Page 25, first paragraph: This document should provide information on the recreation conditions under the existing operation so that the reviewer can assess whether the changes brought about by this proposal are significant or not. This would depend on the relative "quality" of the existing operation and how well it presently meets recreation needs. The analysis should include end of September elevations, also.

Page 25, paragraph 4, fourth sentence: Downstream recreation impacts are highly dependent on short-term river operational changes, as mentioned on page 24. These impacts should be addressed as to whether or not they are "amenable to analysis using the SAM."

Page 25, paragraph 4, seventh sentence: A more thorough explanation of the possible increased frequency of reaching minimum and maximum flow levels is necessary to understand the potential effect.

Page 25, paragraph 4, eighth sentence: The data which would support the statement "Operations at Libby, Hungry Horse, Albeni Falls, and Dworshak should be minimally affected because those projects are currently operated to maximize peaking capability" should be provided in this report and in the IDU-EIS.

Page 26, paragraph 3, first sentence: An explanation, quantitative and qualitative, of the differences in the seasonal recreation index at Hungry Horse is needed.

Page 26, paragraph 4: This paragraph states that firm marketing had no effect on summer reservoir elevations. **Paragraphs 5 and 6** go on to identify the changes in end-of-month elevations under Firm Marketing and effects on summer reservoir elevations. An explanation of these seemingly contrary findings is needed.

Page 26, paragraph 8, first sentence: The statement, "No mitigation would be required for recreation" appears premature in that impacts still have not been adequately identified. An alternative would be to work with the Bureau of Reclamation and the Forest Service, as BPA is with the National Park Service at Grand Coulee, to determine impacts, if any, and estimate costs to modify facilities if necessary.

Page 26, paragraph 8, last sentence: Any policy which may dictate modifying recreational facilities to better accommodate fluctuating lake levels inherent to a power reservoir should be applied equally to every reservoir or other resource affected by Intertie Development and Use.

Page 28, Effects of Nonfirm Allocation, paragraph 1, sentence 4: The effects of lower reservoir elevations depend on the particular distribution of sites within each reservoir to be affected by IDU. Few sites are recorded at lower elevations, but this is because reservoirs on the Columbia River were not thoroughly surveyed before construction. Generally, a greater number of sites are known up-reservoir because this is the area where water fluctuates through elevations adjacent to streams, where most sites are situated. Lower reservoir elevations are likely to increase erosion potential on sites located nearer to each dam. Most of the sites on Federal reservoirs have been recorded within the last 20 years as a result of cultural resources surveys within the zones of reservoir fluctuation.

Thank you for this additional opportunity to comment on the potential impacts of implementation of the intertie system on Pacific Northwest resources within Reclamation jurisdiction.

Sincerely yours,

John W. Keys, III

Regional Director

COLUMBIA RIVER INTER-TRIBAL FISH COMMISSION
975 S.E. Sandy Boulevard, Suite 202, Portland, Oregon 97214 Telephone (503) 238-0667

December 31, 1987

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # TIE-2-135
RECEIPT DATE:
DEC 31 1987
AREA: DISTRICT
OP
cc: ALG
PJI

Donna Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

Dear Ms. Geiger:

Please accept these comments of the Columbia River Inter-Tribal Fish Commission on BPA's Hydro Operations Information Paper (HOIP). Based on our reviews of the HOIP and the Court's order in Idaho v. Herrington, 86-7704 & 86-7705, we believe that the National Environmental Policy Act (NEPA) requires that BPA prepare and circulate a draft environmental impact statement (EIS) addressing "the DC Expansion Project, the impact of tying the DC Expansion Project to the AC Expansion Project, and the new contracts marketing arrangements involving power to be transmitted to the Southwest.... consider[ing] alternatives in addition to not going forward with the project, including mitigation of environmental damage." The HOIP does not satisfy the requirements of the Court's order and fails to ful-fill the purposes of NEPA, which require public disclosure of potential impacts, considerations of alternatives to the project, and preparation of mitigation plans to address significant impacts.

1. The HOIP Does Not Consider Alternatives to the DC Expansion

According to the Court's order, BPA must consider alternatives to the DC Expansion in addition to not going forward with the project. BPA has never contemplated this scenario in a draft EIS so as to provide opportunity for meaningful public comment in an EIS process. BPA has been provided with copies of an Affidavit of Jim Lazar that describes the importance to BPA and the region of evaluating whether it is prudent to move forward with the DC Expansion. We have attached a copy of that affidavit for your convenience. The Lazar affidavit describes alternatives that are available to BPA. These alternatives have not been described in the HOIP and deserve to be reviewed in an draft EIS that provides a genuine opportunity for public comment.

2. The Absence of Meaningful Information Frustrates Meaningful Review and Fails NEPA's Public Disclosure Requirements

The HOIP fails to reasonably account for the amount and complexity of technical information relevant to the issues which are addressed in the document. In short, BPA has failed to comprehend accumulated biological and scientific knowledge on downstream survival of anadromous fish through its use of the FISHPASS model. FISHPASS has become a very sophisticated accounting procedure, insofar as the model has been tailored to accommodate a multitude of fish stocks and levels of flows and spills. However, the scientific logic by which the model determines stock survival is so simplistic as to virtually obscure the physical and biological interactions that are likely to determine survival rates of particular fish stocks. The HOIP does not address these interactions nor the substantial body of literature providing an information base to build a more representative system of logic. As a result, the reviewer's opportunity to submit comments within a very short comment period is severely frustrated. Under these circumstances, not only are considerations of procedural fairness implicated, but also implicated is whether the agency can be said to have considered all the relevant factors in its decision making process. U.S. v. Nova Scotia Sea Food Products, 568 F.2d 240 (2d Cir. 1977); Washington Trollers Assoc. v. Kreps, 645 F.2d 684 (9th Cir. 1981).

As we, and others such as the Northwest Power Planning Council, have previously commented to BPA, it would have been preferable for BPA to study a range of model inputs and report the range of model outputs. We believe that the application of the best available scientific knowledge in this context, at a minimum, must admit the wide range of observed values for key parameters used in FISHPASS. Moreover, we believe that best scientific knowledge directs the consideration of the consequences of reasonably foreseeable combinations of alternative model input values with respect to the model's output under alternative upgrade scenarios. This effort, notwithstanding BPA's limited attempt to conduct sensitivity analysis in October of 1986, has never been meaningfully undertaken. This effort is required by Council on Environmental Quality regulations addressing scientific uncertainty and the requirement to evaluate reasonably forseeable potential impacts.

a. Model Assumptions for Key Parameters

As mentioned, a wide range of input values exists for many of the parameters used in the FISHPASS model. As we have previously indicated, the Mainstem Passage Advisory Committee did not reach agreement on many of the parameter values in FISHPASS

analyses.1 If BPA intends to continue to place such heavy reliance on the FISHPASS model, it must account for the wide variation in input values by considering the consequences of intertie upgrades when alternative input values are utilized.

i. Fish Guidance Efficiency

Although BPA does not describe the fish guidance efficiencies (FGE) for bypass systems at various federal and non-federal dams assumed for purposes of its FISHPASS studies, we requested that information and found that BPA had used MPAC values for FGE's at federal dams. However, these values do not reflect the measured range of FGE's, and more importantly, do not address the uncertainty associated with existing FGE estimates. We suggest that BPA conduct studies using lesser FGE values representing the low end of experimental results at existing facilities and display these results. We have described these values in the following table 1.

TABLE 1.

Project	YEARLING	SUBYEARLING
LGR	.33	.33
LGS	.33	.33
LWM	Ø	Ø
ICH	.23	.23
MCN	.60	.34
JDA	.60	.20
TDA	.25	.15
BVL1	.66	.54
BVL2	.19	.20

Support for these values may be found in the list of references accompanying these comments.

Although BPA conducted a limited test of lesser FGE values in October, 1986, it has not described the results of those tests in the HOIP, nor does it appear to have conducted more thorough analyses using alternative FGE values for the purposes of the HOIP. Since the 1986 study showed additional stocks of fish affected when FGE values were changed, we believe it is important

1/ The status of agreement (and lack therof) before MPAC is summarized in the affidavit of Stephanie Burchfield, dated July 6, 1987, which was filed in the case of Idaho v. Herrington, 86-7704, 86-7705. That information is herein incorporated by reference.

that BPA quantitatively address the consequences of lower FGE's, in a fashion meaningfully comparable to the analyses it performed with the higher FGE's.

ii. Turbine and Reservoir Mortality

The available scientific literature on turbine mortalities also reflects a range of measured results and indicates that a range from 11% to 20% turbine mortality is conservative. In fact, several reported studies have shown that turbine mortalities may reach 60% or more. The studies contained in the HOIP assumed a turbine mortality of 15% (85% turbine survival). From limited modeling sensitivity studies performed by the MPAC, we know that the FISHPASS model is very sensitive to the value used for turbine mortality. At the same time, relatively few studies are available which specifically measured Columbia and Snake River turbine mortalities. Based upon the theoretical work of Bell, et al. we know that turbine mortalities are likely to vary at any particular project in relation to sigma, head, wicket gate opening and other factors, particularly those factors related to operating efficiency. However, FISHPASS does not account for either the measured variability in turbine mortalities nor the differences predicted by Bell and others. Because of the cumulative effects of turbine mortality on various stocks, a change of only a few percentage points at each dam may dramatically affect system survival. We believe that it would be prudent for BPA to assess alternative turbine mortality input values. We suggest that BPA consider the consequences of intertie upgrades where turbine survival inputs of .80 are modeled. References are contained at the conclusion of our comments.

Our concern is heightened by our understanding of how the reservoir mortality inputs for FISHPASS were derived. In short, reach survival studies that measured total mortality in various reaches of the mainstem including an aggregate of turbine, spill, and reservoir mortalities formed the basis for a derivation of reservoir mortality. In simple terms, the derivation assumed that certain turbine and spill mortalities occurred. These mortalities were subtracted out and the remainder was attributed to reservoir mortality.

This treatment of reservoir and turbine mortality information is doubly troublesome. First, no consideration is given to the relation between sources of mortality. For example, it is reasonable to assume that reservoir mortality may be a function of the route of passage through a dam, since injuries may occur in passage through a turbine which limit the ability of a fish to survive transit through the reservoir and other

turbines. 2/ Another way to say this is that mortality is not independent of the route of passage through the dam. However, FISHPASS assumes that the subsequent mortalities incurred by a population of fish passing a dam are independent. Neatly dividing (or partitioning) total mortality into arbitrary and unrelated pieces could badly underestimate the true impact of the intertie. It could underestimate it, but not overestimate it, so by definition this process of estimation is biased against displaying impacts.

The Commission has conducted an analysis using the SURVIVAL model to address this concern.3/ In this analysis we assumed a dependent relationship between the route of dam passage and subsequent survival of a group of fish. In particular, we assumed that of those fish passing via turbines at any given dam 10% incur nonlethal injuries which affect their ability to subsequently survive reservoir passage. We further assumed that this subpopulation incurs reservoir mortality at a rate double that of noninjured fish that have passed through turbines. Additionally, we assumed that fish passing through spill at any given dam survive at a rate 10% greater than noninjured fish that have passed through turbines, due to predation dynamics and other factors. Using these changes in input, the survival impacts of a loss of spill are more than double the survival impacts of an identical loss in spill which we estimated using the same turbine and reservoir survival input values as those used by BPA in its HIOP FISHPASS analysis.

Second, even if we were willing to assume some validity to an independent treatment of mortality sources, the partitioning which formed the basis for the reservoir mortality curves used in BPA's HOIP analyses overlooked the full range of measured turbine mortalities. Other partitions between reservoir and turbine mortality can be reasonably put forward on the basis of

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2/ Two scientific reports have described mechanisms linking turbine passage with increases in predation. Lucas, The Mortality of Fish Passing Through Hydraulic Turbines as Related to Cavitation and Performance Characteristics, Pressure Change, Negative Pressure and Other Factors (April 10, 1962); Research Relating to Mortality of Downstream Migrant Salmon Passing McNary Dam (1956) (Washington Department of Fisheries).

3/ Based on extensive analysis, we have determined that SURVIVAL, a model the Commission developed under contract to BPA, will produce results similar to FISHPASS when using comparable input assumptions. On the basis of our familiarity with that model and with FISHPASS, we have very strong reservations about using simple deterministic outputs of either model as a prediction of foreseeable occurences. These reservations were expressed to BPA in the Commission's August 8, 1986 letter of comment on the supplemental environmental assessment on the D.C. Terminal Expansion.

existing information. We suggest that BPA analyze an alternative partition where per project survival (spill + turbine survival) is considered to be .80 for low flow years (<150 kcfs at The Dalles), .85 for average flow years (150 - 300 kcfs at The Dalles), and .89 for high flow years (> 300 kcfs at The Dalles) for the series of reach survival studies from 1973 to 1980 reported by Sims and Ossiander, 1981. Using these assumptions to calculate the shape of the reservoir mortality curves utilized in FISHPASS and then utilizing those new reservoir mortality curves in analysis of intertie impacts is likely to significantly affect the study outcomes. This information should be presented for the reviewer's benefit to allow meaningful comment on impacts.

Our concerns relative to the treatment of reservoir mortality are further heightened by the "input data updates" described at page B-8 of the HOIP. There BPA states that it has quintupled reservoir mortality rates for nonfederal mid-Columbia projects. The only justification presented is less than a sentence. It is "based on available scientific literature and consultations with various entities." This level of information is hardly sufficient to allow us to make meaningful comment. It does not describe with whom the consultations were made nor does it cite the scientific literature. It does not describe how the scientific literature was interpreted to arrive at quintupling of reservoir mortality in the mid-Columbia. Such information is minimally necessary for us to provide comment on the adequacy of BPA's study efforts and the significance of impacts.

iii. Transportation Mortality

As we have previously described in comments to BPA, mortalities associated with transportation of salmon show a very wide range in values. BPA has assumed that fish transported from Lower Granite and Little Goose dams survive to below Bonneville dam at a 98% rate, while 99% of the fish transported from McNary Dam survive to below Bonneville. These assumptions ignore the observed mortality rates associated with transported fish, which when compared to other fish surviving to below Bonneville Dam, make it essential to identify some increased transportation mortality factor, particularly for salmon species. We appended a detailed analysis of this issue to our letter of August 8, 1986 and again refer to that documentation. The principal response provided to us on this issue was in a November, 1986 letter describing a limited analysis BPA had conducted that used alternative transport mortality inputs. That analysis was only partially responsive to our request insofar as it did not alter spill efficiency inputs or turbine mortality inputs concurrently with transport mortality inputs. Nevertheless, those limited analyses did identify additional stocks of fish impacted by intertie expansions. That information was never provided for public comment.

The HOIP makes no mention of this issue. Consequently, the reviewer must assume that for the purposes of the HOIP, BPA has failed to meaningfully consider the impacts that would be estimated using more probable transport mortality input values. Even if BPA has conducted an analysis of such transportation inputs, it is not presented so as to allow meaningful comment. We recommend that BPA conduct and present for comment alternative analyses which utilize mortality rates of .67 for transportation from Lower Granite and Little Goose dams and .33 for transportation from McNary Dam. We further recommend that these analyses utilize alternative inputs described above for reservoir mortality, turbine mortality, fish guidance efficiency, and spill effectiveness, which is described below.

iv. Spill Effectiveness

Again a range of input values exist for spill efficiency. In our August 4, 1986 letter we requested that BPA consider alternative spill efficiency values concurrently with changes in other parameters. This analysis does not appear to have been conducted. We refer you to table 3 in that letter and request that you analyze impacts of intertie upgrades using the spill efficiency values described therein.

b. July, 1987 Analyses Versus the HOIP

In early August, 1987 BPA filed an affidavit with the Ninth Circuit Court of Appeals stating that studies it conducted in July, 1987 "suggest that 40 stocks of anadromous fish may potentially be adversely affected as a result of DC expansion operations." This was a significant departure from BPA's prior studies that indicated four to seven stocks of fish might be affected. Now, the HOIP would disavow the veracity of the July studies and endorse the earlier work conducted in the summer of 1986. This turnabout, in itself, leads us to believe that the serious questions exist whether the D.C. terminal expansion will have significant adverse impacts on anadromous fish.

The rationale provided in the HOIP for the turnabout in the numbers of stocks affected is cursory. We find it difficult to make meaningful comment on the changes in analysis that BPA has conducted without a more complete explanation of the effects of the changes. On page 2, for instance, the HOIP mentions improvements in survival due to construction of bypass systems in the mid-Columbia. Evidently, the inclusion of bypass systems in the mid-Columbia has significantly altered the survival results that were portrayed in the August, 1987 affidavit. The stated basis for this change is scant. Reference to "public representations made by mid-Columbia project operators to the Northwest Power Planning Council...." is not really helpful. We are unaware of the representations to which you refer. In fact, we are aware of information which leads us to believe that the completion dates, described in the HOIP, for bypass at the mid-Columbia projects are very optimistic. For instance, based upon our most recent consultations with Grant County PUD, the

PUD does not intend to test a prototype screen at Wanapum Dam until 1992 (the HOIP assumes complete bypass installation at Wanapum by 1989). Moreover, we have received little assurance from Grant that any bypass will ever be installed at Priest Rapids dam, let alone a complete bypass by 1989. At present, complete bypass development at Priest Rapids is being held in abeyance by short haul transportation studies. As a result, we believe that BPA should also assess alternative mid-Columbia bypass installation schedules including the possibility that no bypass may be installed at certain projects.

c. The 1987 Corps Spill Plan

The HOIP does not describe how the 1987 Corps spill plan was incorporated into the FISHPASS code to permit evaluation of this spill regime. The absence of this information makes it difficult for us to review and comment upon this change in input. We recommend that this information be described and made available for public comment.

d. Continuation of Spill After Bypass Installation

Similarly, the HOIP mentions, but does not describe, the amount of spill to be provided, if necessary, subsequent to the installation of bypass systems. The fishery agencies and tribes in the Columbia River Basin have recommended a two-step level of spill protection to be provided subsequent to bypass installation. From the information provided in the HOIP we cannot review and comment upon the adequacy or meaningfulness of this input assumption made by BPA. Again, this information should be made available for public review and comment.

e. Benefits to Result from Fish Program are Unsubstantiated

BPA makes little attempt to substantiate its estimations of Program benefits that appear on pages 16-18 of the HOIP. It appears that the Program benefits are primarily attributable to the development of bypass systems. We are certainly supportive of bypass system development, however, we are at a loss to understand and meaningfully comment upon this aspect of the HOIP. Since BPA's assessment of impacts rests heavily upon the comparisons relative to Program benefits, this information is critcal to a meaningful review. For instance, we can not be certain whether the benefits referred to represent improvements in productivity measured at the end of a twenty year period, achieved by the year 2003 (please note the inconsistency between the tables and the text), or averaged over the years 1988 - 2003. If this information is an average, then it would be most helpful to know the annual predicted improvements so that the information can be analyzed in the context of a life-history model.

f. Mean Survival Information Is Not Really Helpful

After obtaining and reviewing the information described in Appendix A to the HOIP, we are compelled again to comment that the presentation of such information, largely in the form of averages, is not conducive to public comment and review. As we have previously commented, fish populations are responsive to less probable but more catastrophic impacts. These impacts are best addressed through a life-history type of analysis, where impacts occurring in individual years can be considered to affect subsequent year classes of anadromous fish.

The HOIP compounds this inadequacy by comparing mean relative survival changes to projected increased survival due to implementation of the Fish and Wildlife Program. As mentioned above, we are very much at a loss in understanding how BPA developed its estimates of survival improvements due to the Program's implementation. This frustrates our ability to meaningfully comment on the comparisons described in tables 1, 2, and 3 of the HOIP. 4/

To give perspective to even small changes in mean survival over a 25 year period and the need for a life-history analysis, we conducted a cursory analysis of multi-year impacts using a prototype of the Columbia River Basin System Planning Model. For purposes of analysis, we compared a survival decrease of 2% attributed to increased hydroelectric mortality with a base case representing reservoir and turbine mortalities comparable to those BPA used in the HOIP analyses. We assumed a 2% increase in mortality each year for a 25 year period. In the 25th year, we observed model outputs indicating over a 25% reduction in naturally spawning fish escapement. This type of analysis is essential to meaningfully consider the impacts of intertie upgrades.

4/ For instance, it appears that BPA may have double counted the benefits of Fish and Wildlife Program implementation with respect to bypass system development. The SAM and FISHPASS model changes described in the HOIP assume that bypass systems will be constructed in accordance with the Program's deadlines or otherwise on optimistic schedules. Thus, the impact analyses should already account for bypass development. If the Program benefits portrayed in the tables are due primarily to bypass completion, this circumstance may have been double counted. However, without more information it is next to impossible to provide meaningful comment on this issue.

3. BPA Has Not Accounted for Model Inadequacy

In building biological models like FISHPASS which determines the survival of anadromous fish, it is vital to maintain close contact with the biology of the situation being modeled. It is all too easy to build biological nonsense into a model of a biological system with which one is not intimately familiar with as a biologist. It appears that great effort has been placed on the hydraulic and accounting procedures contained in the model, while very simplistic biological relationships, at the core of the model, have not received the same degree of analysis and thought.

In order to judge the suitability of using the FISHPASS model to evaluate the potential impact on anadromous fish of changes in hydropower operations (water flow, spill) due to Intertie decisions, we need to have a fair understanding of the model - its components, structure, relationships between components, how it works, its limitations, source and validity of model assumptions, applicability of the model to answer questions on downstream fish migration through hydro power projects, etc. Therefore, proper and detailed documentation of the FISHPASS model is required. Such information is not provided in the HOIP, nor is it contained in the existing documentation of FISHPASS prepared by the Corps of Engineers.

We recommend that FISHPASS model be tested with contrived data, and more importantly, with historical data to compare model results with actual historical data. For example, data from Sims and Ossiander 1981 can be used to compare reach survivals for the years 1973-1979 with model results. As we have commented previously, the absence of any verification studies makes reliance on the model very problematic. In short, the credibility of the model, for the purposes to which BPA applies it, has yet to be established in the biological community with scientific expertise relative to the Columbia's hydrosystem operations.

There is a need to simulate the variable nature of biological events and parameters that are important in the survival of fish migrants - for example, turbine, spill, bypass and reservoir mortalities and FGE values.

The sophistication of SAM model is not matched by FISHPASS. As discussed at page 4 of the HOIP, SAM accounts for the variable nature of the inputs which are critical to the model's performance. FISHPASS makes no accounting for variable nature inherent with the biological inputs. This contrast in the sophistication of the models is confounded by BPA's apparently rigid adherence to single point estimates for FISHPASS input parameters.

3. The HOIP Does Not Address Mitigation

The HOIP's commentary with respect to the benefits of the Fish and Wildlife Program does not satisfy NEPA's requirement for discussion of mitigation. Mitigation must be specific to the project proposed and not part of a general related program. This is important for at least two reasons. First, the existing Fish and Wildlife Program measures are intended to offset existing hydroelectric losses. The Commission has carefully analyzed the extent of existing cumulative losses incurred by the fishery resource since construction of the Basin's hydro projects. Those losses amount to at least 140 million adult salmon and steelhead. The effectiveness of the Program's measures to stem the tide of the annual increases in the hydro system's debt to the fishery resource is not fully certain. Consequently any diminishment in the Program's effectiveness that may result from the intertie upgrades, including the DC Expansion, deserves careful scrutiny. Bald reliance on the Program's measures to offset additional impacts is not appropriate.

Second, the costs of mitigation have an important bearing on the desirability to proceed with a project. Extensive analyses have been prepared with respect to the costs of a spill program, which is the most direct means of mitigating intertie upgrade impacts in the near term. The costs of fishery agency and tribal proposed spill programs, although not accepted by the Corps or BPA, range depending on water years from $2.5 to in excess of $30 million annually. Cost estimates of approximately $10 million per anum are close to the norm for additional spill programs likely to be necessary to offset intertie impacts. The costs of such a mitigation program have not been considered by BPA in the HOIP or elsewhere in the decision of whether to proceed with intertie expansion. Long term costs associated with bypass upgrades and maintenance, the need for which might also be attributable to intertie upgrades, have also not been considered.

In conclusion, we would like to thank you for the opportunity to comment.

Sincerely,

S. Timothy Wapato

S. Timothy Wapato,
Executive Director

cc: CBFWA
NPPC

Attachment TIE 2.135

(A) Turbine Survival

The reported results of the following studies indicate that a range from 80% to 89% for all species is conservative.

Bell, Milo C. 1967 and 1981. A Compendium on The Success of Passage of Small Fish Through Turbines, U. S. Army Corps of Engineers, Portland, OR.
Direct mortality in Kaplan turbines 7-14%, loss directly related to operating efficiency.

U. S. Army Corps of Engineers. 1979. Fifth Progress Report on Fisheries-Engineering Research Program 1973-1978, U. S. Army Corps of Engineers, Portland, OR.
Direct mortality 5-20%, typically about 10% in normal operation, in tests with chinook and steelhead at Big Cliff and Foster in 1967-69.

Holmes, Harlan B. 1952. Loss of Fingerlings in Passing Bonneville Dam as Determined by Marking Experiments. U. S. Fish and Wildlife Service, unpublished manuscript.
Average 15% turbine mortality on chinook at Bonneville Dam 1942-1945 based on adult returns.

Schoeneman, Dale E., Richard T. Pressey and Charles O. Junge. 1961. Mortalities of Downstream Migrant Salmon at McNary Dam. Transactions of the American Fisheries Society 90 (1) : 58-72.
11% turbine mortality on chinook at McNary in 1955 and 1956.

Long, Clifford W. 1968. Research on Fingerling Mortality in Kaplan Turbines. Unpublished report, Bureau of Commercial Fisheries - Seattle, WA.
32% turbine mortality on coho at Ice Harbor in 1968.

Long, Clifford W., Frank J. Ossiander, Thomas E. Ruehle and Gene M. Matthews, 1975. Processed report. Survival of Coho Salmon Fingerlings Passing Through Operating Turbines, National Marine Fisheries Service, Seattle, WA.
20% turbine mortality on coho at Lower Monumental in 1974.

Raymond, Howard L. and Carl W. Sims. 1980. Assessment of Smolt Migration and Passage Enhancement Studies for 1979. Processed report. National Marine Fisheries Service, Seattle, WA.
13% turbine mortality on chinook at John Day in 1979.

Weitkamp, Don, Dan McKenzie, and Tom Schadt. 1981. Survival of Steelhead Smolts - Wells Dam Turbines and Spillway. Report to Douglas County PUD. Parametrix, Inc., Bellevue, WA.
16% turbine mortality on steelhead at Wells in 1980.

Olson, Forrest and Victor Kaczynski. 1980. Survival of Downstream Migrant Coho Salmon and Steelhead Trout Through Bulb Turbines. Report to Chelan County PUD, CH$_2$M Hill, Portland, OR. 7% turbine mortality on coho at Rock Island in 1979.

Fish Guidance Efficiency (FGE) and Sluiceway Efficiency:

A. Lower Granite Dam

Swan, G.A. and R.F. Krcma. 1984. Development of an improved fingerling protection system for Lower Granite Dam. Summary report in Fish Passage Development and Evaluation Program Annual Progress Report 1984. (Corps of Engineers).

Studies of yearling chinook measured FGE's of 50% in 1982, 66% - 78% in 1983, and 33% - 69% in 1984.

Swan, G.A., R.F. Krcma, and F. Ossiander. 1983. Studies to improve fish guiding efficiency of traveling screens at Lower Granite Dam. (Report to the U.S. Army Corps of Engineers).

Measured FGE's of 50% for yearling chinook and 74% for steelhead in 1982.

Swan, G.A., R.F. Krcma, and F. Ossiander. 1985. Development of an improved fingerling protection system for Lower Granite Dam, 1984. NMFS. (Report to the U.S. Army Corps of Engineers).

In 1984, measured FGE's for yearling chinook were 33% - 46% early in the outmigration season and 60% - 69% later in the season.

Sims, C.W., R.C. Johnsen, and D.A. Brege. 1982. Migrational characteristics of juvenile salmon and steelhead trout in the Columbia River system-1981. NMFS. (Report to the U.S. Army Corps of Engineers).

Measured collection efficiency of 30% for yearling chinook and 60% for steelhead in 1981.

Krcma, R. F. and G. A. Swan. 1985. Preliminary results of fish guiding efficiency of traveling screens at Lower Granite Dam. NMFS. Unpublished.

For yearling chinook, measured FGE's of 28% - 70%, while vertical distribution tests indicated that 48% - 70% are guidable by traveling screens.

B. Little Goose Dam

There have been no studies to measure fish guiding efficiency at Little Goose.

C. Lower Monumental Dam

There are no screens that divert fish away from the turbines at Lower Monumental, although a very small number of juveniles do enter the gatewells and pass through orifices where they are bypassed around the dam.

D. Ice Harbor Dam

The sluiceway is currently considered to be the primary bypass method at Ice Harbor.

Johnson, L., et al. 1983. Hydroacoustic evaluation of the efficiencies of the ice and trash sluiceway and spillway at Ice Harbor Dam for passing downstream migrating juvenile salmon and steelhead, 1982. Biosonics, Inc.

Estimated a sluiceway efficiency of 23%.

Johnson, L., et al. 1984. Hydroacoustic evaluation of the efficiencies of the ice and trash sluiceway and spillway at Ice Harbor Dam for passing downstream migrating juvenile salmon and steelhead, 1983. Biosonics, Inc.

Estimated a sluiceway efficiency of 51%.

E. McNary Dam

Krcma, R.F., W.E. Farr, and C.W. Long. 1980. Research to develop bar screens for guiding juvenile salmonids out of turbine intakes at low head dams on the Columbia and Snake Rivers, 1977-79. NMFS. (Report to U.S. Army Corps of Engineers).

Vertical distribution tests at McNary in 1979 indicated potential guidance of 74% for yearling chinook.

Krcma, R.F., M.H. Gessel, and F.J. Ossiander. 1983. Research at McNary Dam to develop and implement a fingerling protection system for John Day Dam. NMFS. (Report to U.S. Army Corps of Engineers).

Measured FGE's of 83% for spring chinook and 76% for steelhead in 1982 using the standard McNary screen system.

McCabe, Jr., G. T. and R. F. Krcma. 1983. Effects of the intermittent operation of submersible traveling screens on juvenile salmonids, 1982. NMFS. (Report to U.S. Army Corps of Engineers).

Measured FGE's of 54% (no screen cycling) and 62% (20 minutes off per hour cycles) for fall chinook at McNary in 1983.

[illegible] Krcma. 1984. Fish guiding and orifice passage efficiency tests with subyearling chinook salmon, McNary Dam-1984. NMFS. Summary report in Fish Passage Development and Evaluation Program Annual Progress Report 1984. (Corps of Engineers).

At McNary in 1984 for fall chinook: measured FGE's of 34% - 46%, and potential guidance of 56% - 77% from vertical distribution tests.

F. John Day Dam

Swan, G.A., R.F. Krcma, and C.W. Long. 1982. Research to develop an improved fingerling-protection system for John Day Dam, 1981. NMFS. (Report to U.S. Army Corps of Engineers).

Estimated FGE's of 75% for yearling chinook and 79% for steelhead in 1981 based on measurements of the John Day conditions at McNary Dam.

Krcma, R.F., M.H. Gessel, and F.J. Ossiander. 1983. Research at McNary Dam to develop and implement a fingerling protection system for John Day Dam. NMFS. (Report to U.S. Army Corps of Engineers).

Estimated FGE's of 88% for yearling chinook, 87% for steelhead, and 52% for subyearling chinook in 1982 based on measurements of the John Day conditions at McNary Dam.

Krcma, R.F. 1985. Preliminary results of fish guiding efficiency of traveling screens at John Day Dam. NMFS. Unpublished.

Estimated FGE of 72% for yearling chinook and 20% for subyearlings.

G. The Dalles Dam

Although the sluiceway is presently the primary means of bypass at The Dalles, studies of the effectiveness of traveling screens are underway.

Willis, C.F. 1982. Indexing of juvenile salmonids migrating past The Dalles Dam, 1982. Oregon Dept. of Fish and Wildlife.

Estimated a maximum sluiceway passage efficiency of 40% with zero spill conditions.

Attachment TIE-2-135
(B)

THE UNITED STATES COURT OF APPEALS
FOR THE NINTH CIRCUIT

Nos. 86-7704, 86-7705

STATE OF IDAHO, by and through
Jim Jones, Attorney General, ET AL.,

Petitioner

AND

NORTHWEST RESOURCE INFORMATION CENTER,
INC., ET AL.,

Petitioners-Intervenors

v.

JOHN HERRINGTON, Secretary of Energy,
ET AL.,

Respondents

NATIONAL WILDLIFE FEDERATION

Petitioner

AND

CONFEDERATED TRIBES OF THE WARMS SPRINGS
RESERVATION OF OREGON, ET AL.

Petitioners-Intervenors

v.

BONNEVILLE POWER ADMINISTRATION, ET AL.,

Respondents

ON PETITION FOR REVIEW OF A DECISION ON
THE BONNEVILLE POWER ADMINISTRATION DC TERMINAL EXPANSION

AFFIDAVIT OF JIM LAZAR, CONSULTING ECONOMIST
IN SUPPORT OF THE SECOND MOTION FOR STAY

Krema, R. F. 1985. Preliminary results of fish guiding efficiency of traveling screens at The Dalles Dam. NMFS. Unpublished.

Estimated FGE of 44% - 56% for yearling chinook and 71% - 80% for steelhead at The Dalles Dam in 1985.

B. Bonneville Dam

[illegible], R.F., D. DeHart, M. Gessel, C. Long, and C.W. Sims. 1982. Evaluation of submersible traveling screens, passage of juvenile salmonids through the ice-trash sluiceway, and cycling of gatewell-orifice operations at the Bonneville First Powerhouse, 1981. NMFS. (Report to U.S. Army Corps of Engineers).

In 1981 at Bonneville's first powerhouse measured FGE's of 79% (range of 66% - 83%) for yearling chinook and 72% (range of 54% - 77%) for subyearling chinook. Vertical distribution tests indicated guidance of about 75% - 90% for fingerlings and 75% for subyearlings.

[illegible], R.F., M.H. Gessel, W.D. Muir, C.S. McCutcheon, L.G. Gilbreath, and B.H. Monk. 1984. Evaluation of the juvenile collection and bypass system at Bonneville Dam-1983. NMFS. (Report to U.S. Army Corps of Engineers).

Estimated average FGE's of 19% (range of 12% - 26%) for yearling chinook and 24% (range of 8% - 40%) for subyearling chinook at Bonneville's second powerhouse in 1983. Vertical distribution tests indicated potential guidance of 48% for yearlings and 42% for subyearlings.

[illegible], R.F. et al. 1984. Evaluation of the juvenile collection and bypass systems at Bonneville Dam - 1984. NMFS. Summary report in Fish Passage Development and Evaluation Program: Annual Progress Report 1984. (Corps of Engineers).

Measured FGE's ranged from 26% - 44% for yearling chinook and 20% - 32% for subyearling chinook at Bonneville's second powerhouse in 1984. Vertical distribution tests indicated potential guidance of 81% - 90% of yearlings and 46% - 70% of subyearlings.

Krema, R.F. and M. H. Gessel. 1985. Preliminary results of fish guiding efficiency of traveling screens at Bonneville's second powerhouse. Unpublished.

Measured FGE's for yearling chinook ranged from 27% - 41% in 1985 at Bonneville's second powerhouse.

AFFIDAVIT OF JIM LAZAR

In Support of Motion for Stay

I. INTRODUCTION

I, Jim Lazar, am a consulting energy economist with offices located at 1063 S. Capitol Way, Olympia, Washington. I earned a bachelor of arts degree in economics from Western Washington University in 1974, and completed nearly all of the coursework requisite for a master of arts degree in economics from the same institution. I was employed by the Washington State Legislature as a Research Analyst in the energy and transportation field between January, 1977 and July, 1979. Since 1979 I have been self-employed in consulting work in the field of electric and natural gas utility rate and resource development.

My clients have included the Washington Utilities and Transportation Commission, the Idaho Public Utilities Commission, the California Energy Commission, the Northwest Power Planning Council, and numerous public and private electric utilities. I have previously appeared as an expert witness on numerous occasions before the Washington Utilities and Transportation Commission, the Idaho Public Utility Commission, the Public

Utilities Commissioner of Oregon, the Montana Public Service Commission, the Illinois Commerce Commission, the California Energy Commission, and the Arizona Corporation Commission. I have also appeared as an expert witness in federal regulatory proceedings before the Bonneville Power Administration, the Economic Regulatory Administration, and the Nuclear Regulatory Commission.

In recent years, I have provided diversified energy consulting services to a wide range of clients in the Pacific Northwest. I have served on an advisory committee to the Northwest Power Planning Council dealing with options for resource development, and continue to serve on the Resource Strategy Technical Review Panel to the Bonneville Power Administration. I recently completed a study of potential regional hydroelectric system impacts due to increased water withdrawals for irrigation purposes.

I have been retained by the Fishery Parties to review the affidavits of Mr. Sienkiewicz, Bonneville's Supplemental Environmental Assessment, and other materials, and to supply the court with more current information about the potential economic losses (or gains) to Bonneville from deferral of construction on the D.C. Terminal Expansion. My analysis includes the use of information which Bonneville made available to me on November 27, 1987 where the agency projects significantly lower potential

sales of energy to California, and significantly lower prices for the sales which are to be made, compared with the estimates upon which Bonneville's previous representations to this court were based.

My analysis reaches the following conclusions:

1) Current projections by Bonneville of the price which Bonneville can expect to receive from sales of power to the Southwest are now substantially lower than those used in the initial justification of the DC Terminal Expansion, and consistent with the projections previously presented to the Court in the Affidavit of Ronald Knecht, P.E.;

2) Current projections by Bonneville of the amount of power which the California market is readily willing to purchase at prices which are remunerative to the Northwest have dropped sharply compared with those used in the initial justification of the DC Terminal Expansion. The existing 4800 megawatts of intertie capacity appears to be adequate to provide the level of service which California is willing to purchase;

3) The power surplus in the Northwest is significantly smaller than previously assumed by Bonneville, due to

significant growth in Northwest aluminum industry production, and the loss of certain Northwest power generating resources;

4) Alternatives to the DC Terminal Expansion project, including transmission interconnections now proposed East of the Sierra Nevada range may be developed independently of Bonneville, and provide increased power transfer capacity even in the absence of the DC Terminal Expansion, thereby eliminating the economic justification for this project.

II. SOUTHWEST POWER SALES PRICES ARE NOW SIGNIFICANTLY LOWER THAN PREVIOUSLY ASSUMED BY BONNEVILLE

The court already has before it the affidavit of Ronald Knecht, P.E., describing the wide range of energy alternatives now available to California, and how Bonneville has greatly overstated the probable revenue from utilities in the state of California. Certain information has become recently available from Bonneville and other sources which confirms Mr. Knecht's analysis.

Mr. Knecht's affidavit indicates that the availability of low-cost energy from long-term cogeneration contracts is a major resource available to California utilities as an alternative to purchases from Bonneville. The veracity of Mr. Knecht's statements about this potential competitor to BPA power sales has now clearly been demonstrated.

In the recently completed Bonneville Power Administration wholesale rate proceeding, the issue of whether California utilities would develop indigenous power resources such as industrial cogeneration rather than rely upon purchases from Bonneville was a major issue, hotly contested by both California and Northwest parties. The California parties requested that BPA adopt a "Rate Cap" on nonfirm energy sales to assure California utilities that if they decided to rely upon Northwest energy, the rates to be paid would not escalate uncontrollably. Absent such a rate guarantee, the California parties argued, it made good economic sense to develop additional cogeneration within the state of California.[1]

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[1] It is perhaps interesting that on November 25, 1987, the Washington Utilities and Transportation Commission authorized the sale of the 32 megawatt Othello oil-fired powerplant owned by the Washington Water Power Company. It was understood that the plant was to be installed in Southern California as part of a cogeneration project. This particular transaction simultaneously reduced Northwest generating capacity while increasing California generating capacity, thereby reducing the value of additional intertie expansion from both.

The California Energy Commission testified in the Bonneville rate proceeding just completed that "new facilities that would generate over 1500 MW of QF power are seeking licensing, and the principal regulatory issue in most of these licensing cases appears to be whether the power from the facility is needed."[2] This testimony urged adoption of the Rate Cap, suggesting that absent such a limitation, the California Energy Commission would look more favorably upon alternative power suppliers to the exclusion of Bonneville economy energy sales.

The Bonneville Administrator addressed this concern in the recently completed rate proceeding by agreeing to the Rate Cap proposed by the California utilities. The rate cap as adopted guarantees that BPA nonfirm rates will not exceed the higher of either the Bonneville Average System Cost, or "BASC" (total revenue requirement divided by total sales) or BASC plus 30 percent of the difference between BASC and Pacific Southwest fuel costs.[3]

The effect of this Rate Cap is to sharply limit the "upside potential" for BPA in revenues from sales to California. Prior to the adoption of the rate cap, surplus sales by Bonneville could follow market trends; a rise in the price of oil or gas

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[2] Testimony of William M. Chamberlain, Melissa Ann Jones, and William B. Marcus, Exhibit CC-01, March 2, 1987

[3] Administrators Record of Decision, WP-87-A-02, Page 183

could allow BPA to obtain much higher prices for surplus power. With the rate cap in place, BPA can recover only 30% of any increase in California fuel costs if the cost of oil and gas should exceed Bonneville's average cost of producing power. The Rate Cap does not increase the rates which Bonneville will receive under other circumstances, as these are market driven.

Mr. Knecht's affidavit discussed the fact that the "Window of Opportunity" for this transmission expansion has really already passed. Mr. Knecht also stated that sales in 1989 and 1990 over an expanded intertie are likely to be zero or small. Bonneville's most recent estimates of the size of the California market confirm this; the California market, as I will discuss, is now perceived by Bonneville to be about 1800 megawatts smaller than previously believed.

One test of the softness of the California market is to look at projected prices under dry-year conditions, when the smallest amount of surplus energy is available, and the prices received are highest. A year ago, Bonneville projected that its revenue from nonfirm power sales to the Southwest in the 1989 fiscal year would average about 21 mills/kwh under 1939 (dry year) conditions.[4] In the November 27, 1987 model results,

[4] BPA Nonfirm Revenue Analysis Program results, 1987 rate proceeding Exhibit BPA-06A, Page 94

Bonneville has reduced that estimate to about 15 mills/kwh.[5] In wetter years, of course, prices are expected to be slightly lower than under dry year conditions.

A December 1, 1987 filing with the Washington Utilities and Transportation Commission by The Washington Water Power Company indicates an expectation that sales to California in the near future will be made at rates of 11-15 mills/kwh.[6] This is consistent with the most recent estimates from Bonneville, and significantly lower than the estimates Bonneville previously presented to this Court.

III. BPA NOW PROJECTS LOWER SALES TO CALIFORNIA, AT LEVELS WHICH WOULD NOT REQUIRE ADDITIONAL INTERTIE CAPACITY

On November 27, 1987, BPA staff provided me with the most recent surplus power sales forecasts. These are significantly different than those previously used in rate proceedings and the Environmental Assessment. These show that in 1989, the first year in which the DC Terminal Expansion would be operated if

[5] BPA Nonfirm Revenue Analysis Program, Rate Case Exhibit BPA-06A, page 94; November, 1987 NFRAP model results.

[6] Exhibit of K.O. Norwood, Washington Water Power 1987 Washington rate filing, Cause No. U-87-__[not yet docketed]

completed, that power sales to California will most likely not exceed the carrying capacity of the existing facilities.

As recently as December, 1986, BPA published estimates that the California market could absorb up to 5400 megawatts of Northwest energy in January, and 6500 megawatts of Northwest energy in September, assuming that prices fell to 7 mills/kwh (.7¢/kwh).' Even at prices which begin to become attractive to the Northwest, at about 12 mills/kwh, the California market was expected to reach 5900 megawatts during the California summer heavy demand months of April through October. Given the existing intertie capacity of 4800 megawatts, these previous market estimates indicated that the intertie expansion would allow the Northwest to sell more power to California at attractive prices.

Even in July of this year, when Mr. Sienkiewicz prepared his supplemental affidavit, BPA was still assuming that the California market could absorb as much as 6400 megawatts of Northwest surplus if prices dropped to 7 mills/kwh, or 5900 megawatts of energy at a price of 12 mills/kwh.' These levels of sales would be in excess of the carrying capacity of the existing intertie, and supported BPA's assertion that intertie

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' BPA Nonfirm Revenue Analysis Program Results, BPA Wholesale Rate Proceeding Exhibit BPA-6A, Page 50.

' BPA Final Wholesale Power Rate Development Study, rate proceeding exhibit FS-BPA-06A, Page 88

expansion would present opportunities for additional sales and revenues. It appears that this is no longer the case.

In the November 1987 report, Bonneville reports their estimate that the total California market at a price of 12 mills/kwh (where the operation of Northwest thermal generating plants to serve California load begins to be economic), the California market would be willing to absorb only 4090 megawatts in the month of August, and in the range of 2200-3500 megawatts the remainder of the year. Bonneville apparently now recognizes that the California market will no longer absorb as much Northwest energy as previously thought. Bonneville seems to be finally confirming what Mr. Knecht testified to in his affidavit to this Court.

This reduction since December of 1986 in Bonneville's projection of the market to California averages some 1800 megawatts, more than one and one half times the additional capacity which would be provided through the DC Terminal Expansion. The new projection of maximum economic sales to California at remunerative prices is well within the 4800 megawatt capacity of the existing intertie.

Bonneville's December, 1986 and November, 1987 estimates of the magnitude of the California market at different prices for the 1989 fiscal year are reproduced in Appendix 1 to this

affidavit. These clearly show the substantial shrinkage in the expected California market. In addition, BPA has now provided estimates of the California market in the 1990 fiscal year, which are still lower than those already-reduced 1989 levels. The 1990 fiscal year market estimate is also included in Appendix 1.

IV. THE POWER SURPLUS IN THE PACIFIC NORTHWEST IS SMALLER THAN THAT ASSUMED IN THE BONNEVILLE ANALYSES DUE TO CIRCUMSTANCES WHICH HAVE CHANGED SINCE THE TERMINAL EXPANSION PROJECT WAS INITIATED..

Bonneville's Environmental Assessment for the D.C. Terminal Expansion project was prepared before the 1986 collapse in oil and gas prices. In Mr. Sienkiewicz' July affidavit, he refers to changes in oil and gas price forecasts.[9] Mr. Sienkiewicz does not elaborate on precisely <u>what</u> assumptions were changed, or what they were changed to. Since the Environmental Assessment was prepared, however, several events have diminished the amount of surplus energy which the Northwest can be expected to have available for sale outside the region over the period when a delay in the terminal expansion would occur. Even since the July affidavit, Bonneville has revised sharply downward its own forecast of the potential for marketing power in the Southwest.

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[9] Second Supplemental Affidavit of Sienkiewicz, Page 9

First, a number of Northwest aluminum smelters which were closed or in partial operation earlier in this year have returned to service. In February of this year, power deliveries to Bonneville's Direct Service Industries (primarily aluminum smelters) were 2210 average megawatts. By October, BPA power deliveries to the Direct Service Industries had risen to 2735 average megawatts. Sales to the aluminum companies is important for Bonneville, as these customers use about 25% of BPA's power sales, and provide about 25% of BPA's revenues. BPA has both contractual[10] and statutory[11] obligations to provide power to regional aluminum producers prior to selling power outside the region.

The reason for this increase in sales of power to the aluminum industry is a significant increase in the price of aluminum. A year ago, aluminum ingot brought a price of only about 50¢/lb. Today the price is nearly 80¢/lb, and two-year futures for aluminum indicate that a price of 70¢/lb is expected to be sustained well into the future. Aluminum is widely traded in a world market; recent declines of the U.S. dollar relative

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[10] BPA executed 20 year power sales contracts with the aluminum companies in 1981.

[11] The Northwest Preference Act, P.L. 86-552, 78 Stat. 756, 16 U.S.C. 837-837h, was enacted by Congress as part of the legislative package authorizing construction of the first intertie to California.

to other currencies will contribute to a more competitive stance for U.S. aluminum producers.

Bonneville sells electricity to the aluminum smelters at a variable rate tied to the price of aluminum. At current aluminum prices, the power sold to the aluminum companies is bringing BPA nearly 30 mills/kwh (3¢/kwh), significantly more than BPA currently receives for sales of energy outside the region. BPA is therefore currently enjoying both higher total kilowatt-hour sales to these customers, and higher revenues per kilowatt-hour of electricity. In the current fiscal year, revenues from aluminum producers are now projected to approximate $600 million, compared with an estimate of $500 million made just six months ago.[12] So, while Bonneville has less power available to sell outside the region, lessening the need for additional transmission capacity, the agency is receiving higher revenues from sales of that power inside the region.

Total electric usage within the region in recent months have been significantly above forecasted levels. While a part of this is due to growth in sales to aluminum producers, a portion is due to growth in non-federal loads above the levels forecast. This growth in intraregional power needs diminishes the amount of power available to be sold outside the region. During the first

[12] Personal conversation, Paul Spies, BPA Aluminum Specialist, November 30, 1987

four months of this calendar year, federal and total regional power loads underran forecasts by 5% and 2% respectively; since that time, these loads have exceeded forecasts by 5% and 3% respectively.[13] It is conservative to estimate that total regional loads are currently about 500 MW higher than was forecast a year ago.

In addition to growth in power requirements due to restarting of aluminum industry loads, a number of resources which were included in the Northwest Power Planning Council's regional plan have been delayed or diminished. For example, the Council originally called for implementation of new residential building codes, known as Model Conservation Standards, by January, 1986.[14] These standards were expected to reduce electricity usage by new homes built in Western Washington and Western Oregon to a level of 2 kwh/year/square foot.[15]

In the 1983 Plan, the Council projected that the Model Conservation Standards would contribute between 25 average megawatts per year under low growth conditions and 180 megawatts of energy per year under high growth conditions. The Council has now delayed the enforcement date for the Model Conservation

[13] BPA Power Situation Statements, January - October, 1987.

[14] Northwest Conservation and Electric Power Plan, 1983, V. 1, Page 10-9

[15] Ibid

Standards to 1989,[14] and revised the projected energy use upwards to 3.2 kwh/year/square foot.[15]

A three-year delay in implementation increases the in-region need for power by 75-540 average megawatts of energy, under the Council's forecasting methodology. This reduces the amount of surplus available for export. The compound effect over three years of this loss of conservation and consequent increase in need for power within the region is to significantly reduce the amount of surplus energy available for export, and thereby reduce the need for additional transmission capability. All three years of this shortfall -- one past, one present, and one future -- are subsequent to the Environmental Assessment prepared by Bonneville.

Another major regional power resource previously considered available until 1993 has been closed and may not reopen. The New Production Reactor at the Henford nuclear reservation (N-reactor) was closed for safety modifications in the wake of the explosion at Chernobyl. The N-reactor shares a number of design characteristics with the plant at Chernobyl. Bonneville is the primary recipient of energy from the N-reactor. This plant was previously projected to provide some 440 average megawatts of

[14] Northwest Conservation and Electric Power Plan, 1986, Page 1-E-4

[15] Personal conversation, Council Conservation Staff member Tom Eckman, November 25, 1987

energy through an expected 1993 decommissioning date. It is not known at this time if the N-reactor will ever reopen.

The N-reactor is particularly relevant to the issue now before the court. BPA indicated that the primary benefit of the DC Terminal Expansion was in the early years of its availability, and that a delay until 1993 would greatly harm Bonneville.[16] That analysis included an assumption that the N-reactor would operate between now and 1993. The current closure of the N-reactor by itself reduces BPA's surplus only for the period prior to 1993, after which the region has long been expecting the N-reactor to be decommissioned. Therefore, the harm discussed in the earlier affidavit, which assumed energy production from resource which is not currently available, has been diminished.

The sum of these three reductions in the Northwest power supply comes to at least 1000 megawatts, and as much as 1500 megawatts. This reduction in available is available energy is approximately equal to the additional transmission capacity which the DC Terminal Expansion would provide.

[16] Sienkiewicz, Affidavit of April 24, 1987, page 4

V. OIL AND GAS PRICES, ON WHICH BPA RATES TO CALIFORNIA ARE DEPENDENT, ARE SUBSTANTIALLY LOWER THAN ASSUMED BY BONNEVILLE.

Bonneville's previous presentation to this Court and the analysis included in the July rate decision by the Administrator were based upon fuel price forecasts for California utilities which have not materialized and are not likely to materialize. Bonneville has since significantly reduced its forecasts of both oil and gas prices and the Southwest surplus power market.

In the July Administrator's Record of Decision, BPA adopted a gas price forecast of $2.45 per million BTU.[1] This would translate into a "ceiling price" which BPA could hope to get from California utilities for surplus energy of about 24 mills/kwh (2.4¢/kwh). Actual gas prices to the California utilities continue to run about 30% lower than this BPA estimate. Oil prices have remained soft, and appear likely to remain at current levels for the next two years at least.[2] Current sales of surplus energy, both within the Northwest and outside the region reflect this continued stability in oil and gas prices.

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[1] Administrator's Record of Decision, page 10

[2] As of the date when this memorandum was drafted, two-year oil futures remained below $19/bbl. A futures market for natural gas has not been developed, so no comparable market-based measure of price stability is available, but gas prices have historically tracked oil prices.

In spite of a severe drought in the region, with streamflow levels less than 70% of average, surplus power continues to be sold at prices below 20 mills/kwh (2¢ per kwh). Thus it is reasonable to presume that at the time the DC Terminal Expansion would be energized, if completed on the current schedule, that any power sales which might utilize that facility would be at current rates, which are significantly lower than those used by Bonneville in its efforts to justify the Terminal Expansion.

VI. LOWER PRICES FOR SALES TO CALIFORNIA MEANS THAT AN ATTRACTIVE ALTERNATIVE USE OF BPA SURPLUS POWER IS TO DISPLACE OPERATION OF NORTHWEST COAL-FIRED POWERPLANTS

With continued stability in oil prices, the cost to BPA of delay of construction on the D.C. Terminal Expansion is reduced. As the price which can be obtained for surplus energy declines to levels near the operating costs of regional coal-fired facilities, BPA has a much larger market available to it than the existing 4800 MW of existing intertie capacity. Within the Pacific Northwest's integrated transmission system, approximately 6700 MW of coal-fired generation are relied upon for firm power production. These plants have different operating costs, and represent different opportunities for in-region sale of available

surplus energy to displace their operation for purposes of power system economy.

The Boardman and Valmy coal-fired plants have operating costs in excess of 27 mills/kwh (2.7¢/kwh)[1], and are routinely shut down when surplus energy is available. These plants are capable of producing a total of 1000 MW of energy at full output. At current natural gas prices in California, the displacement of the Boardman and Valmy plants is a more attractive use of BPA surplus energy than is the sale of BPA power outside the region. In fact, both Boardman and Valmy have been displaced a significant amount of the time in recent years.

Coupled with the existing intertie capacity of about 4800 megawatts, the economic displacement of the Boardman and Valmy plants means that additional intertie capacity would only be useful for purposes of power supply planning when the Pacific Northwest surplus exceeds 5800 megawatts. This occurs on the Bonneville system only about 16% of the time.[2]

The Centralia, Jim Bridger, and Corette coal plants, also located within the regional transmission grid, have variable operating costs in excess of 14 mills (1.4¢) per kwh.[3] These

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[1] BPA Nonfirm Revenue Analysis Program, November 27, 1987

[2] BPA surplus energy estimates from rate proceeding exhibit BPA-06A, Page 546 for 1989 operating year.

[3] BPA Nonfirm Revenue Analysis Program, November 27, 1987

plants are capable of producing some 3400 megawatts of energy at full output. BPA must offer surplus power at relatively attractive "displacement" rates to entice the operators of these plants to shut down. This sometimes does involve a loss of revenue to Bonneville, compared with sale of surplus energy to California, but the cost is only the difference between current surplus energy prices of about 15 mills (1.5¢) per kwh and coal displacement rates which appeal to the operators. Based upon BPA's most recent analyses, displacement would be attractive to plant operators compared with variable coal plant operating costs at rates in the range of 11-15 mills (1.1¢ - 1.5¢) per kwh. Thus, the revenue loss to Bonneville would be very small, at most meaning a sacrifice of 1-4 mills/kwh in comparison with Bonneville's average estimate of California revenue of 15 mills/kwh.

Displacement of all 1000 MW of high-cost regional coal-fired generation, all 3400 MW of medium cost regional coal-fired generation is a potential alternative to the sale of energy to California when intertie capacity may be constrained. Even assuming that the thermal plants operate on average at only 75% of rated capacity, some 3300 megawatts of surplus power can be sold to displace coal plant operation. Coupled with the existing 4800 megawatts of intertie capacity, this means that a surplus of 8100 megawatts must exist before the lack of additional intertie capacity actually becomes a significant problem to Bonneville.

On the BPA system, a surplus of this magnitude is available less than 1% of the time, and on a regional basis, such a surplus is available less than 2% of the time. It is only under these unlikely very wet circumstances, and for a very short period of time, that a significant loss of revenue within the Pacific Northwest would result from delay of construction of additional intertie capacity. As soon as normal or near-normal weather returned, the intertie expansion would be idle again.

For example, in the re-enactment of the 1950-51 water year, one of the wettest on record, BPA now forecasts that incremental power sales to California will be made at a "market expansion" rate of 7-8 mills/kwh (.7~.8¢/kwh). At low prices such as this, it really does not make much sense to operate Northwest coal and nuclear plants to produce energy which will be transmitted 1000+ miles over the DC intertie, incurring major transmission losses along the way.

My review of the changes in the California market, which Mr. Knecht addressed in his affidavit, and which Bonneville now appears to accept, demonstrates the following: First, the California market is no longer expected to be large enough to require the DC Terminal Expansion; Second, at no time can the California market absorb enough power at a price which is attractive to the Northwest to exceed the capacity of the existing intertie; Third, BPA has a market for its power within

the region at prices which are competitive with those which it is currently able to obtain from California.

VII. ALTERNATIVES TO THE DC TERMINAL EXPANSION WHICH SHOULD BE CONSIDERED IN AN ENVIRONMENTAL IMPACT STATEMENT MAY WELL ELIMINATE ANY ECONOMIC JUSTIFICATION FOR THE EXPANSION.

A number of factors should logically to be considered in an EIS which may well obviate the need for the terminal expansion. Until an EIS is completed, it is really premature to attempt to reach any judgment on whether the DC terminal expansion is economically and environmentally appropriate.

First, Bonneville is also considering the economics of constructing a third AC intertie. This expansion may well be financed by parties other than or in addition to Bonneville, and produce a different set of costs and benefits. What has not been discussed yet by Bonneville is whether addition of a third A.C. intertie would eliminate the need for this DC terminal expansion.

Second, private parties are considering construction of an inland intertie from the state of Idaho to the Southwest.

Construction of this line, a decision over which Bonneville has little or no control, could well capture a sufficient share of the inter-regional power transmission market to eliminate the usefulness of this DC terminal expansion.

Third, hearings are now underway in each of the Northwest states regarding the proposed merger of Pacific Power and Light Company's parent, Pacificorp, with the Utah Power and Light Company. In the joint prospectus for this merger, now before the shareholders of the two companies, one of the primary reasons for the merger is the ability of Utah Power and Light to provide markets for low-cost surplus markets from the Northwest.[24] Such markets would be accessed via the Utah Power transmission grid, and specific improvements to that transmission system. These improvements, decisions over which Bonneville has little or no control, may add as much as 700 megawatts of interregional transmission capacity.[25] This could well obviate the justification for this DC terminal expansion.

Fourth, the Northwest Power Planning Council has specifically called for greater use of Northwest secondary hydroelectric power within the region as a strategy to reduce

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[24] Joint Proxy Statement / Prospectus, Pacificorp, Utah Power and Light Company, October 29, 1987, Page 7.

[25] Testimony of R.M. Boucher, Vice President of Power Systems, Pacific Power, before the Washington Utilities and Transportation Commission, Cause No. U-87-1338-AT, Exhibit T-5, pages 9-11.

intra-regional power costs.[26] Additional in-region use of this surplus would reduce and perhaps obviate any perceived economic justification for this DC terminal expansion. Bonneville has not previously incorporated the use of additional secondary energy within the region on the scale recommended by the Northwest Power Planning Council in its power supply modeling or cost evaluations. Since it is the Council, and not Bonneville, which is charged with planning the region's electrical strategy for the future, any conclusion presented by Bonneville which fails to incorporate this level of in-region use of surplus hydroelectric power is deficient.

VIII. CONCLUSION

The above information, much of which has not previously been made available to the Court, demonstrates that there are serious questions regarding the need for and cost-effectiveness of the proposed DC terminal expansion. These economic questions related to power production must be addressed, together with the questions regarding fishery impacts which Bonneville has acknowledged are outstanding before a comprehensive analysis and reasoned decision can be made about whether the project should proceed.

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[26] Northwest Power Planning Council, Northwest Conservation and Electric Power Plan, 1986, Page 8-4

To date, all of the economic justifications which have been put forth have been completed internally by Bonneville without a rigorous public review process. This leaves an independent analyst unable to confirm Bonneville's assertions. Most of the available documentable evidence seems to suggest that Bonneville's conclusions are now incorrect.

The costs to BPA from a delay in the terminal expansions are at most minimal. Power sales to California are no longer projected to be as large as previously assumed by Bonneville due to additional development of indigenous resources in California. Revenues from those sales which are made are expected to be lower due to reductions in the forecasted prices for oil and natural gas. At these lower rates, additional markets are available in the Pacific Northwest which Bonneville can access in order to dispose of the surplus which it has available, and avoid the need to forego power sales during any delay. It is likely that these intraregional sales can produce revenues equal to those which Bonneville can obtain from California utilities, thereby eliminating any net benefit from the DC Terminal Expansion.

I conclude, based upon the available evidence, that it is unlikely that Bonneville will sustain any measurable harm due to a delay in the construction of the DC terminal expansion during the period required for preparation of an Environmental Impact

Statement. Such a comprehensive analysis, including quantification of the environmental costs associated with operation of the DC Terminal Expansion, may likely show that completion of this project is not economically justified.

Dated this 14th day of December, 1987

Jim Lazar, Consulting Economist

Subscribed and sworn before me this 14th day of December, 1987

Linda C. Sanders

Notary Public for the State of Washington
residing in Olympia

My Commission Expires on 4-28-90

The United States Court of Appeals
For the Ninth Circuit

No. 86-7704, 86-7705

Appendix to the Affidavit of
Jim Lazar, Consulting Economist

Bonneville Power Administration
Nonfirm Revenue Analysis Program Results
December, 1986; November, 1987

Division of Rates PLXE
Date: DEC 22, 1986
Time: 17:52

Nonfirm Revenue Analysis Program
Forecasted PSW Nonfirm Market
Average Megawatts
Fiscal Year 1989

NFRAP 3

	A Oct-88	B Nov-88	C Dec-88	D Jan-89	E Feb-89	F Mar-89	G Apr-89	H May-89	I Jun-89	J Jul-89	K Aug-89	L Sep-89	M aMW-89
1 PSW Market at 40.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
2 PSW Market at 39.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
3 PSW Market at 38.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
4 PSW Market at 37.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
5 PSW Market at 36.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
6 PSW Market at 35.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
7 PSW Market at 34.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
8 PSW Market at 33.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
9 PSW Market at 32.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
10 PSW Market at 31.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
11 PSW Market at 30.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
12 PSW Market at 29.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	0	0	0
13 PSW Market at 28.0 Mills/kWh....	0	0	0	0	0	0	0	0	0	0	2908	2798	477
14 PSW Market at 27.0 Mills/kWh....	0	0	0	0	0	0	0	0	678	2462	3902	4057	930
15 PSW Market at 26.0 Mills/kWh....	0	0	0	1372	1564	1487	1371	2411	1920	3302	4045	4096	1799
16 PSW Market at 25.0 Mills/kWh....	0	973	1418	1475	1701	1615	1676	2466	2224	3465	4093	4165	2108
17 PSW Market at 24.0 Mills/kWh....	2339	1670	1459	1523	1694	1712	1702	2524	2333	3633	4093	4204	2412
18 PSW Market at 23.0 Mills/kWh....	3432	1905	1551	1547	1753	1815	1780	2474	2373	3705	4093	4206	2559
19 PSW Market at 22.0 Mills/kWh....	3547	2216	1711	1733	1845	2022	1933	2625	2751	3848	4140	4240	2724
20 PSW Market at 21.0 Mills/kWh....	3721	2550	1753	2132	2140	2502	2405	3466	3297	4110	4250	4289	3058
21 PSW Market at 20.0 Mills/kWh....	4064	3239	1889	2522	2930	3238	3435	4204	3774	4268	4410	4516	3544
22 PSW Market at 19.0 Mills/kWh....	4067	3586	1850	3059	2994	3412	3500	4267	3935	4269	4488	4866	3694
23 PSW Market at 18.0 Mills/kWh....	4067	3587	1939	3108	2924	3432	3501	4283	3810	4269	4727	4884	3715
24 PSW Market at 17.0 Mills/kWh....	4072	3588	2004	3110	2908	3427	3556	4334	3801	4269	4749	5210	3756
25 PSW Market at 16.0 Mills/kWh....	4343	3641	2066	3198	3089	3584	3645	4420	3988	4325	4914	5271	3877
26 PSW Market at 15.0 Mills/kWh....	4594	3796	2675	3394	3475	3924	3822	4776	4148	4805	5243	5455	4180
27 PSW Market at 14.0 Mills/kWh....	4864	4082	3238	3658	4161	4379	4647	4925	4505	5071	5381	5717	4554
28 PSW Market at 13.0 Mills/kWh....	5109	4345	3393	3863	4607	4614	4896	5074	4729	5329	5572	5761	4774
29 PSW Market at 12.0 Mills/kWh....	5341	4733	3775	4232	4885	4883	5202	5303	5251	5724	5920	5936	5099
30 PSW Market at 11.0 Mills/kWh....	5407	5005	4066	4599	5440	5350	5467	5714	5600	6039	6209	6112	5416
31 PSW Market at 10.0 Mills/kWh....	5458	5189	4680	4984	5770	5904	5893	6002	5880	6037	6325	6447	5712
32 PSW Market at 9.0 Mills/kWh....	5458	5392	4716	5099	5788	5962	5972	6239	6003	6130	6327	6447	5793
33 PSW Market at 8.0 Mills/kWh....	5458	5458	5045	5417	6279	6391	6289	6464	6261	6389	6485	6508	6034
34 PSW Market at 7.0 Mills/kWh....	5458	5458	5255	5417	6472	6391	6402	6464	6282	6415	6496	6508	6081
35 Adjustments to PSW Market													
36 Contractual Surplus Energy.....	260	211	170	170	188	204	270	260	351	340	340	351	260
37 Nonfederal Contracts PSW.....	723	643	647	554	373	350	350	142	168	428	743	742	490
38 IS Firm Wheeling Contracts.....	90	65	43	52	58	60	64	75	96	116	136	104	80
39 Constraint of PSW Market													
40 Intertie Available.....	3790	4205	4184	4529	5893	5467	5502	5604	5531	5410	5197	5299	5043

Date: NOV 27, 1987
Time: 11:21

Forecasted PSH Energy Market
Average Megawatts
Fiscal Year 1989

	A Oct-88	B Nov-88	C Dec-88	D Jan-89	E Feb-89	F Mar-89	G Apr-89	H May-89	I Jun-89	J Jul-89	K Aug-89	L Sep-89	M aMW-89
1 PSH Market at 41.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
2 PSH Market at 40.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
3 PSH Market at 39.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
4 PSH Market at 38.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
5 PSH Market at 37.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
6 PSH Market at 36.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
7 PSH Market at 35.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
8 PSH Market at 34.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
9 PSH Market at 33.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
10 PSH Market at 32.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
11 PSH Market at 31.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
12 PSH Market at 30.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
13 PSH Market at 29.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
14 PSH Market at 28.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
15 PSH Market at 27.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
16 PSH Market at 26.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
17 PSH Market at 25.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
18 PSH Market at 24.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
19 PSH Market at 23.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
20 PSH Market at 22.0 Mills/kWh	0	0	0	1738	1535	2087	0	0	0	0	0	0	446
21 PSH Market at 21.0 Mills/kWh	0	0	0	1766	1770	2242	984	0	0	0	0	0	560
22 PSH Market at 20.0 Mills/kWh	0	1587	1231	2011	1717	2453	1047	873	1666	1936	3324	3139	1748
23 PSH Market at 19.0 Mills/kWh	1537	1578	1283	1954	1870	2450	1099	905	1753	2958	3332	3139	1994
24 PSH Market at 18.0 Mills/kWh	1710	1565	1395	2096	1796	2605	1156	939	1669	2941	3337	3145	2032
25 PSH Market at 17.0 Mills/kWh	1739	1686	1356	2115	1832	2647	1207	1053	1845	2997	3339	3142	2084
26 PSH Market at 16.0 Mills/kWh	1790	1769	1448	2186	1920	2602	1224	982	1906	3053	3367	3170	2125
27 PSH Market at 15.0 Mills/kWh	1722	1820	1509	2304	2103	2730	1444	1077	2198	3113	3375	3213	2226
28 PSH Market at 14.0 Mills/kWh	2232	2450	1722	3080	2783	3271	2177	1770	3198	3563	3787	3641	2806
29 PSH Market at 13.0 Mills/kWh	2434	2526	1876	3276	3093	3402	2424	2127	3328	3622	3910	3794	2989
30 PSH Market at 12.0 Mills/kWh	2844	3001	2238	3381	3281	3475	2600	2489	3466	3681	4070	3871	3291
31 PSH Market at 11.0 Mills/kWh	3246	3371	2567	3693	3670	3925	3356	2902	3710	3799	4251	4265	3561
32 PSH Market at 10.0 Mills/kWh	3695	3711	2938	3971	4007	4394	3689	3304	3881	4099	4423	4421	3866
33 PSH Market at 9.0 Mills/kWh	3882	3942	3382	4580	4437	4971	3963	3646	4321	4440	4705	4650	4243
34 PSH Market at 8.0 Mills/kWh	4463	4566	3900	4932	4896	5139	4510	4112	4720	4682	4832	4806	4626
35 PSH Market at 7.0 Mills/kWh	5045	5055	4825	5457	5359	5399	4983	4567	5164	5172	5329	5310	5139
36 PSH Market at 6.0 Mills/kWh	5304	5328	4990	5458	5413	5444	5250	4831	5281	5314	5404	5377	5282
37 PSH Market at 5.0 Mills/kWh	5304	5328	5168	5458	5413	5444	5250	5132	5281	5314	5404	5377	5322
38 PSH Market at 4.0 Mills/kWh	5305	5328	5168	5458	5413	5444	5250	5132	5281	5314	5404	5377	5322
39 Adjustments to PSH Market													
40 Contractual Surplus Energy	42	12	12	12	12	12	12	17	60	62	62	63	32
41 Nonfederal Contracts PSH	723	643	647	554	373	350	350	142	168	428	743	742	490
42 IS Firm Wheeling Contracts	196	181	148	103	58	17	13	18	20	27	173	193	96
43 Constraint of PSH Market													
44 Intertie Available	3779	3850	4134	4395	5809	5708	5797	5923	5907	5762	5260	5293	5127

Division of Rates - PUHC
Run - NOV 27, 1987
Time - 11:21

Nonfirm Revenue Analysis Program
Forecasted PSH Energy Market
Average Megawatts
Fiscal Year 1990

	A Oct-89	B Nov-89	C Dec-89	D Jan-90	E Feb-90	F Mar-90	G Apr-90	H May-90	I Jun-90	J Jul-90	K Aug-90	L Sep-90	M aMW-90
1 PSH Market at 41.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
2 PSH Market at 40.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
3 PSH Market at 39.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
4 PSH Market at 38.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
5 PSH Market at 37.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
6 PSH Market at 36.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
7 PSH Market at 35.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
8 PSH Market at 34.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
9 PSH Market at 33.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
10 PSH Market at 32.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
11 PSH Market at 31.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
12 PSH Market at 30.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
13 PSH Market at 29.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
14 PSH Market at 28.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
15 PSH Market at 27.0 Mills/kWh	0	0	0	0	0	0	0	0	0	0	0	0	0
16 PSH Market at 26.0 Mills/kWh	0	0	0	1637	1351	1675	0	0	0	0	0	0	588
17 PSH Market at 25.0 Mills/kWh	0	0	0	1614	1421	1842	0	0	0	0	0	0	605
18 PSH Market at 24.0 Mills/kWh	0	0	1154	1649	1546	1853	852	0	0	0	0	0	587
19 PSH Market at 23.0 Mills/kWh	0	0	1193	1629	1390	1920	849	693	0	0	2398	2194	1023
20 PSH Market at 22.0 Mills/kWh	0	1660	1231	1870	1644	2031	934	810	1511	1988	3341	3209	1683
21 PSH Market at 21.0 Mills/kWh	1590	1628	1253	1901	1685	2153	962	757	1690	3119	3422	3275	1955
22 PSH Market at 20.0 Mills/kWh	1682	1742	1263	1934	1691	2395	999	856	1917	3162	3420	3313	2033
23 PSH Market at 19.0 Mills/kWh	1713	1652	1252	2044	1711	2514	1045	861	1773	3164	3420	3313	2049
24 PSH Market at 18.0 Mills/kWh	1702	1701	1309	1996	1773	2463	1102	884	1994	3180	3426	3316	2093
25 PSH Market at 17.0 Mills/kWh	1820	1828	1416	1977	1830	2571	1138	941	2041	3208	3430	3325	2129
26 PSH Market at 16.0 Mills/kWh	1956	1903	1438	2101	1765	2595	1207	941	2055	3219	3535	3385	2178
27 PSH Market at 15.0 Mills/kWh	1892	2016	1458	2258	1991	2680	1292	1081	2253	3242	3603	3412	2267
28 PSH Market at 14.0 Mills/kWh	2368	2587	1840	3079	2686	3265	2040	1613	3274	3633	4012	3851	2851
29 PSH Market at 13.0 Mills/kWh	2607	2899	2010	3287	3056	3370	2160	1941	3393	3776	4068	3966	3044
30 PSH Market at 12.0 Mills/kWh	2837	3196	2239	3390	3275	3403	2546	2275	3501	3864	4150	4018	3227
31 PSH Market at 11.0 Mills/kWh	3323	3541	2781	3694	3606	3824	3317	2717	3724	4062	4360	4380	3608
32 PSH Market at 10.0 Mills/kWh	7514	3801	2947	3958	3972	4261	3649	3327	3879	4261	4523	4527	3986
33 PSH Market at 9.0 Mills/kWh	4085	4011	3361	4557	4426	4878	3908	3655	4371	4510	4772	4721	4269
34 PSH Market at 8.0 Mills/kWh	4677	4582	3989	4939	4851	5097	4433	4067	4700	4701	4868	4887	4633
35 PSH Market at 7.0 Mills/kWh	5188	5207	4934	5465	5326	5361	4944	4586	5134	5211	5375	5345	5171
36 PSH Market at 6.0 Mills/kWh	5299	5327	5091	5458	5389	5441	5210	4773	5259	5369	5420	5390	5283
37 PSH Market at 5.0 Mills/kWh	5299	5327	5139	5458	5389	5441	5210	5081	5259	5369	5420	5390	5313
38 PSH Market at 4.0 Mills/kWh	5299	5327	5139	5458	5389	5441	5210	5081	5259	5369	5420	5390	5313
39 Adjustments to PSH Market													
40 Contractual Surplus Energy	59	22	22	22	22	22	22	33	67	68	68	69	41
41 Nonfederal Contracts PSH	723	643	647	554	373	350	350	142	168	402	717	716	483
42 IS Firm Wheeling Contracts	196	181	148	103	58	17	13	18	20	27	173	193	96
43 Constraint of PSH Market													
44 Intertie Available	4831	4909	5193	5444	5799	5698	5787	5907	5900	5782	5280	5313	5485

Your
Seattle
City Light

Mayor W. Hayes, Superintendent
Charles Royer, Mayor

January 4, 1988

(FAX)

Donna Lou Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Dear Ms. Geiger:

Seattle City Light (SCL) appreciates the opportunity to comment on the Hydro Operations Information Paper. We have reviewed the Information Paper and are pleased that BPA has updated its analyses. The logic, data and modeling changes appear to more accurately reflect actual planning and operations. We offer specific comments in three areas which are detailed below.

BYPASS ASSUMPTIONS

SCL certainly agrees that the bypass facilities play a critical role in mitigation of fish and wildlife impacts. For this reason, we are interested in the sensitivity that any slippages in these schedules may have on your conclusions. We are also interested in whether or not you considered the affect, on an incremental basis, that the new FISHPASS assumptions and the bypass facilities have on the conclusions presented. In other words, it is not clear to what extent the FISHPASS model assumptions, in particular, those pertaining to the bypass facilities, drive the results.

It is also unclear how the model assumptions used and discussed in the Information Paper compare with the Council's Fish and Wildlife program. The paper would be improved greatly by including a discussion which distinguishes impacts and mitigation for intertie expansion from the Council's programs and anticipated results.

ANALYSIS AND DISCUSSION DEFICIENCIES

We encourage BPA to expand the discussion regarding effects to anadromous and resident fish. In general, some of the data presented are confusing and do not appear to be supported by the associated significance of the results

700 Second Avenue South, Seattle, Washington 98104-2049 (206) 625-3000

Division of Rates PLNC
Date: NOV 27, 1987
Time: 11:21

Monthly Revenue Analysis-Program
Forecasted FNH Requirements Costs
Average Megawatts
Fiscal Year 1990

	A	B	C	D	E	F	G	H	I	J	K	L	M
	Oct-89	Nov-89	Dec-89	Jan-90	Feb-90	Mar-90	Apr-90	May-90	Jun-90	Jul-90	Aug-90	Sep-90	ANN-90
1 Summit #1 (FCE1	44.15	45.52	47.68	50.50	50.95	50.66	48.66	47.11	45.50	45.90	47.01	47.19	47.55
2 Summit #2 (FCE1	44.15	45.52	47.68	50.50	50.95	50.66	48.66	47.11	45.50	45.90	47.01	47.19	47.55
3 Wood River (FCO1	43.55	44.56	46.46	48.94	49.35	48.94	47.39	46.06	44.75	45.06	46.04	46.22	46.42
4 Shuffleton (SFL1	39.79	41.25	43.58	46.45	47.01	46.52	46.51	42.79	41.08	41.39	42.56	42.72	43.11
5 Bethel (FCE1	38.34	39.69	41.85	44.60	45.10	44.59	42.74	41.16	39.50	39.87	40.96	41.12	41.45
6 Othello (HWP1	35.79	36.99	38.76	41.13	41.50	41.09	39.56	38.25	36.95	37.21	38.16	38.29	38.65
7 Northeast (HWP1	55.06	56.16	55.87	38.12	38.47	38.07	36.61	35.37	34.12	34.37	35.25	35.39	35.73
8 Beaver (FCE1	32.78	33.91	35.71	38.06	38.42	37.99	36.46	35.15	33.84	34.09	35.00	35.13	35.45
9 Bonners Ferry Diesel #2	30.32	31.35	32.98	35.11	35.44	35.06	33.67	32.49	31.30	31.53	32.36	32.48	32.73
10 Bonners Ferry Diesel #1	30.32	31.35	32.98	35.11	35.44	35.06	33.67	32.49	31.30	31.53	32.36	32.48	32.73
11 Boundary	52.19	52.19	52.19	52.19	52.19	52.19	52.20	52.20	52.20	52.20	52.20	52.20	52.19
12 Whidbey Island (FSPL1	29.42	30.51	32.25	34.52	34.86	34.44	32.96	31.65	30.37	30.60	31.47	31.59	32.04
13 Fredonia #1 & #2 (FSPL1	28.76	29.82	31.52	33.75	34.07	33.66	32.20	30.94	29.69	29.92	30.77	30.89	31.32
14 Fredrickson #1 & #2 (FSPL1	28.56	29.62	31.30	33.51	33.83	33.42	31.97	30.73	29.49	29.71	30.56	30.67	31.11
15 Whitehorn #1, #2, & #3 (FSPL1	28.54	29.59	31.27	33.48	33.80	33.40	31.94	30.70	29.46	29.68	30.53	30.65	31.08
16 Valmy (FCO1	27.69	27.69	27.70	27.71	27.72	27.72	27.73	27.73	27.74	27.75	27.76	27.77	
17 Centralia	19.87	19.88	19.89	19.90	19.92	19.92	19.93	19.94	19.95	19.97	19.98	19.99	19.95
18 Jim Bridger (FCO1	16.34	16.35	16.36	16.37	16.39	16.40	16.41	16.41	16.43	16.44	16.45	16.46	16.40
19 Utah Resources	16.34	16.35	16.36	16.37	16.39	16.40	16.41	16.41	16.43	16.44	16.45	16.46	16.40
20 Jim Bridger (FPL1	16.34	16.35	16.36	16.37	16.39	16.40	16.41	16.41	16.43	16.44	16.45	16.46	16.40
21 J.E. Corette (FCO1	16.54	16.55	16.56	16.57	16.58	16.59	16.60	16.60	16.61	16.61	16.62	16.58	
22 City of Port Angeles	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
23 Tillamook PUD	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
24 Seattle Electric Coop	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
25 Coalitz County PUD #1	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
26 Kaiser Aluminum	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
27 Snohomish County PUD	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80
28 Cbistrip #1 & #2	11.90	11.91	11.93	11.96	11.96	11.97	11.98	11.99	12.00	12.02	12.03	12.05	11.97
29 Colstrip #3 & #4	10.07	10.08	10.09	10.10	10.11	10.11	10.12	10.13	10.13	10.16	10.15	10.16	10.12

which pertain to resident fish and we suggest the addition of summary tables of the numerical results. Also, the significance of cumulative impacts to stocks on the Columbia River system under various Intertie scenarios do not appear to be addressed.

RELATIONSHIP OF UPDATE TO THE FINAL IDU EIS

We regard the Information Paper as an update to your Draft Intertie Development and Use Environmental Impact Statement (IDU EIS); a relationship which is not clearly stated in the paper itself. It is also unclear to us, at this point, what additions and/or modifications to this analysis will be forthcoming as a result of revisions to the revised Draft Intertie Access Policy. We are pleased with your statement in the December 1987 Issue Alert (The Intertie) which states that the analyses and comments associated with the Hydro Operations Information Paper will be incorporated in the Final IDUEIS. We anticipate, and are hopeful, that the Final IDUEIS will explain the evolution of the analyses, assumptions, and results used by BPA, as well as the inter-relationships of the various pieces of the review process for Intertie Expansion, participation and access policy.

Thank you for providing an opportunity to comment. We appreciate receiving an extension of the deadline for comments submitted, given the scheduling problems characteristic of the holiday season.

Sincerely,

G.R. Garman, P.E.
Assistant Superintendent,
Power Supply and Planning

CCO:jm

November 12, 1987

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: TIE-2-137
RECEIPT DATE:
JAN 06 1988
AREA: DISTRICT
All

*note: 12/29 Logged as an attachment to TIE-2-118.

Mr. Walt Pollock
Assistant Administrator for Sales
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97232

Dear Walt,

I believe studies under conditions of regional load/resource balance with DSI loads of 3,000 mw and top quartile load of 750 mw, probably mid-1990s conditions, would give reasonable insights to impacts seasonal exchanges will have on hydro system operations. I suggest the following cases:

1. No seasonal exchanges, 300 mw firm intertie sale.
2. Add 800 mw seasonal exchanges.
3. Increase seasonal exchanges to 1,500 mw.
4. Add 2,000 mw combustion turbines to be operated using provisional drafts, to the extent possible. Of course provisional drafts for the CTs would be made only after such drafts for DSI top quartile service.

Assume the seasonal exchanges are for delivery May through September and return November through March and that delivery will be made before return. Also, run one or more cases assuming the "fish flush" program is terminated.

For each case, evaluate reservoir status monthly, if possible. Are they within allowable limits? Is reservoir refill impacted? Are there substantial differences in the ability to operate the system for DSI top quartile service, and when using 2,000 mw of CTs to firm nonfirm, with and without the exchanges? Are some months better and others worse with the exchanges? If so, what are the tradeoffs?

Appropriate analyses should be made and system operations found to be satisfactory with the exchanges, including preserving an ability for BPA to later enter into such exchanges, before BPA grants seasonal exchange rights to others under the long term intertie access policy.

Sincerely yours,

Hector J. Durocher
Consultant

cc Bob Griffin, BPA
Bob Lamb, BPA

UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
NATIONAL MARINE FISHERIES SERVICE
ENVIRONMENTAL & TECHNICAL SERVICES DIVISION
847 NE 19th AVENUE, SUITE 350
PORTLAND, OREGON 97232-2274
503-231-6806

F/NWR5-600

DEC 31 1987

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: TIE-2-138
RECEIPT DATE:
JAN 07 1988
AREA: DISTRICT
L (OP)
CC: PII

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Dear Ms. Geiger:

As stated in our letter of December 24, 1987 to Mr. R. Fox, the National Marine Fisheries Service recommends that the Bonneville Power Administration (BPA), in order to satisfy the Ninth Circuit Court's directive concerning the Direct Current Intertie expansion, provide either a revised draft Intertie Development and Use Environmental Impact Statement (IDU-EIS) or a separate draft EIS for public review and comment. We believe that comments submitted on the Hydro Operations Information Paper (Paper) cannot substitute for public comment on a revised or separate draft EIS. We have, however, reviewed the Paper in light of its technical content. Our comments relative to our responsibilities to anadromous fish follow.

General Comments

Our primary concern with the Paper is the approach taken towards relegating estimated reductions in juvenile fish survival to levels of insignificance. The Paper compares anticipated benefits to fish survival from various ongoing and planned mitigation programs to decreases in fish survival estimated by the analysis, and then indicates that these decreases are insignificant. First, these programs are in place to mitigate for past and existing fish losses, not to mitigate for reduced survival due to Intertie actions. Second, any reduction in fish survival is inconsistent with BPA's ongoing efforts to increase stocks already severely depressed primarily due to hydrosystem impacts.

The Northwest Power Planning Council (NPPC) has estimated that 5 to 11 million adult salmon and steelhead are lost annually due to hydropower impacts in the Columbia Basin. With this in mind, the NPPC has set an interim goal of doubling the present fish runs returning to the Columbia River. In addition to habitat and passage improvements, an increase in fish production is needed if this goal is to be achieved. Presently, sufficient numbers of eggs are not available to significantly enhance production of a number of depressed upriver stocks (Wells Pool Spring and Summer

Chinook, Rock Island and Rocky Reach natural Spring Chinook, Snake River Fall Chinook, etc). When working within such a narrow margin while attempting to increase brood stock and eggs (as is presently the case), a reduction in fish survival would delay rebuilding of upriver stocks. Therefore, any reduction in survival of depressed upriver fish stocks due to Intertie expansion and use would have to be considered a significant impact warranting mitigation.

We are also concerned about the apparent omission of a "worst case" condition in the Paper. The potential range of reduced fish survival due to Intertie expansion and use is not presented. The range of relative mean decreases in survival estimated for the four sample years is presented, but this does not appear to be the range of potential reduced survival based on analysis of the high and low values of the assumptions and the error ranges inherent in the data. That the modelling analysis, with its assumptions and data ranges, shows a reduction in survival is itself indicative that much greater reductions in survival may actually occur. We encourage BPA to present a worst-case analysis, as required by the National Environmental Policy Act, since enhancement of depressed upriver stocks may depend on mitigation for actual reductions in survival that are substantially greater than the small percentages estimated by the model.

Specific Comments

Page 2, paragraph 2. The assumption of completed bypass facilities being in place at mid-Columbia dams between 1989 and 1993 is overly optimistic. Wells Dam bypass is expected to be in full operation by spring, 1989. Rocky Reach prototype work has met impediments that make the final installation date uncertain. Rock Island prototype evaluation will begin in 1988 but the final development and installation schedule is also uncertain. The first prototype screen at Wanapum is now scheduled for testing in 1992 and testing at Priest Rapids will be prolonged because of identified problems. Of the dates indicated for mid-Columbia bypass systems, Wells-1989, Rocky Reach-1991, Rock Island-1993, Wanapum-1989, Priest Rapids-1989 (pg. B-4, para. 4), only the Wells date appears likely. It is quite certain that Wanapum and Priest Rapids will not have bypass systems in place by 1989. The assumption is overly optimistic and should be revised as appropriate.

Additionally, the basis is not presented for the projected increases in survival rates ("... 40 percent between 1988 and 2003."). For example, what fish guidance efficiencies were used to estimate survival improvements? Also, does the 40 percent refer to the year 2003? The basis for projected increases should be presented and it should be made clear by what year the improvement is expected. We believe it important that these analyses be provided for public review and comment prior to the final IDU-EIS.

Page 10, paragraph 5. As stated in our comments on the draft IDU-EIS (letter to Ms. D. L. Geiger, BPA, Jan. 8, 1987), mean monthly flows are not necessarily indicative of potential impacts to anadromous fish. For example, a change in flow lasting over a period of several days can greatly influence the juvenile migration. We recommend that an increased resolution in flow analysis be used to estimate potential flow changes due to hydrosystem/Intertie operations.

Page 14, paragraph 4. Egg availability has not been taken into account in determination of significant impact. Depressed stocks must have additional eggs if fish production of these stocks is to be substantially increased.

Page 18, Table 3. No basis is given for the listed "Program Benefits" and, as indicated, none reaches the NPPC interim goal of doubling upriver stocks. Therefore, any reduction in survival of these stocks is significant and inconsistent with efforts to rebuild upriver stocks.

Page 19, paragraph 1. The significance of a decrease in survival of upriver depressed stocks has been addressed above in our general comments.

Page 19, paragraph 3. The statement about only a portion of the Lyons Ferry hatchery fish being transported from McNary Dam is unclear. All subyearling fall chinook that are collected at McNary are transported. Several hundred thousand yearling fall chinook are released from Lyons Ferry hatchery in the spring and may be returned to the river after collection if flows are high enough to meet the Fish Transportation Oversight Team criteria providing for return of yearling chinook to the river. The statement should be clarified.

Page B-8, paragraph 1. The report states that BPA has updated the fish guidance efficiencies based on current information from the Corps of Engineers (COE), yet these values are not presented. These efficiencies should be presented and provision made for public review and comment.

Page B-8, paragraph 2. The COE has revised its schedule for bypass construction several times recently and has not yet obtained appropriations to meet this schedule. Present indications are that the COE schedule will be delayed an additional 1-2 years. The assumed COE schedule used in this analysis should be updated, presented and made available for review and comment. The schedule should include the potential for further delay.

Page B-8, paragraph 3. The report indicates that the assumption of reservoir mortality was changed from 0.7 to 3.5 percent per day for mid-Columbia projects, but the value for COE project reservoirs is not presented. Assumptions and values that are

different from the draft EIS should be presented and provided for public review and comment.

In conclusion, the overall trend of results of the modeling analysis is a decrease in fish survival. Since such mathematical modeling indicates trend more reliably than specific values, a reduction in fish survival is the most likely expected result of Intertie expansion and use. In view of efforts to rebuild upriver stocks, this reduction must be considered significant. Thus, we recommend that mitigation alternatives be addressed, clearly and in detail, in the forthcoming draft or revised EIS.

Thank you for the opportunity to comment.

Sincerely,

for

Einar Wold
Acting Division Chief

cc: CBFWA
CRITFC
WDF
USFWS

DEPARTMENT OF THE ARMY
NORTH PACIFIC DIVISION, CORPS OF ENGINEERS
P.O. BOX 2870
PORTLAND, OREGON 97208-2870

REPLY TO ATTENTION OF

DEC 1987

Environmental Resources Branch

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: TIE-2-139
RECEIPT DATE
JAN 07 1988
AREA: DISTRICT
OP (L)
CC: PJI

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

Dear Ms. Geiger:

Enclosed for your consideration are Corps of Engineers comments on BPA's Hydro Operations Information Paper entitled "Intertie Development and Use Environmental Impact Statement Information Update and Request for Comment."

In the analysis of effects on migration starting on page 14 of the referenced document we do not consider appropriate the use of percentages to establish "flagging criteria." For example, a 1 percent change in a fish run of 10,000,000 fish represents a loss of 100,000 juveniles. This number is significant as opposed to a 1 percent change in a fish run of 100,000 fish (1000 juveniles). It is more appropriate to use an absolute number of fish as the "flagging criteria" so that your intent is clearly identifiable.

The terms, "adversely, significantly, and substantially" are used throughout the report without any numerical basis to support the position being taken. The findings in this document are presented in narrative form only and hence the reviewer cannot test the accuracy of the findings. In order to have meaning we believe more detailed data should be provided to support the position being taken by BPA.

Our more detailed comments are enclosed. We appreciate the opportunity to review and comment on your report.

Sincerely,

James R. Fry
Colonel, Corps of Engineers
Acting Division Engineer

Enclosure

North Pacific Division Corps of Engineers
Comments on BPA Hydro Operation Information Paper
"Intertie Development and Use Environmental Impact
Statement Information Update and Request for Comment"

1. Our biggest concern with the analysis presented in the information paper is that in determining the significance of impacts an incremental assessment was not done. Though the determination of F&W losses were done properly by comparing with and without conditions, the conclusions as to significance are questionable. The following provides some examples.

a. Page 6, bottom. It is now assumed that mid-Columbia bypasses are installed in the without condition. This leads to statements that the impacts are insignificant because the runs are so much higher. This is not a good incremental analysis unless the losses of fish are a great deal less because the bypasses protect the salmon from losses due to operation changes.

b. Page 16, 2nd paragraph. The conclusions drawn here violate the basics of an incremental analysis. Impacts from various alternatives need to be compared to the base case (without action condition) and improvements made from alternative projects (e.g., Columbia Basin F&W Program) should not be credited to the alternative being investigated. In this case the 1.4 percent decrease in fish stocks, due to DC upgrade, should not be dismissed as insignificant simply because of improvements made with other programs. This same error is made on the bottom of the page concerning the Third AC Intertie.

c. It appears the only criteria to be used in determining significance is whether the fish stock's viability and harvest are threatened.

2. Page 7. Using McNary to define the forced spill limit may be too restrictive. This plant has the smallest capacity of the four Lower Columbia projects and incurring forced spill at this project may result in more system energy generated from the higher capacity projects that exist downstream.

3. Page 9, 2nd paragraph. The analysis concentrates only on 1987 to 2006. Since surplus situations will not exist after this general time frame it would seem logical to extend the time horizon.

4. On page 12, paragraph 2, the document states turbine mortality to range from 10 to 30%. FISHPASS uses 15%, and the Northwest Power Planning Council's (NWPPC) Mainstem Passage Advisory Committee accepted 11% adjusted to 15% to take into account front roll mortality. The figure of 30% has by-and-large been thrown out due to a poor study design. Bonneville Power Administration's (BPA) paper should reflect the accepted value of 15% turbine mortality.

5. Page 13 bottom paragraph, discusses FISHPASS runs, but the discussion does not provide sufficient detail for the reader to determine what criteria were used in these FISHPASS runs. FISHPASS is extremely detailed, and the input parameters can greatly alter the outputs, details for analysis should be provided.

6. Pages 15-17, we do not believe that balancing expected project impacts with the expected benefits of regional implementation of the Power Planning Council's Fish and Wildlife Program is correct unless those benefits derived from the Council's program are specifically defined as mitigation for the proposed project. In fact, some portion of the increased number of fish from the Council's program should be included in the without-project condition.

7. Page 16, Table 1; Page 17, Table 2; Page 18, Table 3. The document does not provide the reader with a description of how program benefits (1988-2003) were determined. It appears the basis for the no significant impact is the relative decreases in stocks as compared to program benefits. The complexity of determining program benefits cannot be underestimated.

8. Page 19. A number of statements related to potential fish mitigation requirements are made on this page. First, it seem inappropriate to discuss such mitigation actions when the report appears to be saying that fish mitigation is not required. Secondly, many of the statements are incorrect. For example, (1) a juvenile fish bypass program is already in place at Corps dams in order to protect the Lyons Ferry fish, (2) there are no data showing excessive straying of juvenile fall chinook from Lyons Ferry Hatchery. WDW is presently testing the concept of direct transport from Lyons Ferry Hatchery to determine the potential benefits, and (3) Lyons Ferry Hatchery full production level is programmed as follows:

Fall Chinook - 101,800 lbs at 70-90 fish/lb
Spring Chinook - 8,800 lbs at 15 fish/lb
Steelhead - 116,400 lbs at 5 fish/lb

This level of production should fully use the hatchery capacity. Increasing production at that site or increasing production at other sites is very speculative at this time.

9. Pages 19 and 28 discuss BPA proposed mitigation options at Corps of Engineers projects that would require Corps concurrence before being considered acceptable options. These mitigation options should be deleted from this document.

10. One key assumption in this document is that spill will stop at dams when the bypass systems are completed. This may or may not occur. Timing of construction of the bypass systems may also be critical to the BPA analysis.

11. Page 23, discusses the determination of no significant impact on resident fish. The document states that drawdown in pool elevations will occur at Libby, Hungry Horse, and Dworshak, but fails to state the effects of these drawdowns. The paper states the drawdowns are not having any impact, but fails to describe the basis for this decision.

United States Department of the Interior

BUREAU OF RECLAMATION
WASHINGTON, D.C. 20240

IN REPLY REFER TO: 623

JAN 14 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: TIE-2-140
RECEIPT DATE:
JAN 22 1988
AREA: DISTRICT

cc: S. Smith - PJI
J. Normandeau - ALG

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

Dear Ms. Geiger:

In response to Bonneville Power Administration's (BPA) request for technical assistance for the Hydro Operations Information Paper--Intertie Development and Use Environmental Impact Statement (EIS), we are providing general and specific comments on the Information Paper.

Of primary concern is the approach taken by BPA in regard to the new information. Although the conclusions reached in this information paper may not be significantly different from the previous Draft EIS, the data, assumptions, and model changes are of such magnitude as to make, in our opinion, the reissuance of the Draft EIS a necessity.

If the Draft EIS is not reissued, then much more summary data needs to be included in the document so that the public can determine whether the conclusions reached by BPA are reasonable. The data needed to support the impact conclusions reached on the various alternatives, in most cases, are not included in the document.

Specific comments are presented below:

1. Page 2, last sentence of paragraph two: When discussing survival rates, the text should indicate whether this is for juveniles or refers to escapement of spawning adults.

2. Page 6, last paragraph: Have plans been adopted and installation approved for installation of bypass systems?

3. Page 9, paragraph two: The specific conditions that the 4 contract years are to represent should be presented.

4. Page 10, paragraph two: More information should be provided on the change in definition of "full pool." The explanation on page B-3, i.e., "to be more consistent with coordinated planning," is insufficient.

5. Page 16, paragraph two: Are the mortality rates annual values or are they cumulative?

6. Pages 17 and 18: In discussing the decreased survival rates, the text is unclear as to whether the decreases apply to the no-action base condition or to the future without condition that includes implementation of the Columbia River Fish and Wildlife Program. To clarify the situation and avoid terms such as "relative decrease," we suggest that survival rates as well as the number of fish be displayed for the no-action base condition, the no-action future condition (this includes the Columbia River Fish and Wildlife Program), and the various project alternatives. The effect of juvenile survival on escapement should also be included in the discussion.

7. Page 19: Who is to provide financing for stocking and transporting alternatives?

8. Page 20, first paragraph, last sentence: This is one example of many where additional information that would normally be included in the Draft EIS is needed to support the statement regarding balanced flow management.

9. Page 22, last paragraph: The basis for the "no significant impact" statement should be included. What changes in reservoir elevation would be considered significant?

10. Page 23, last paragraph: This paragraph discusses ways to mitigate impacts from reduced reservoir levels. Who is to provide financial support for these alternatives?

11. Page 24, first paragraph: Statements to the effect that mitigation recommendations would be considered for implementation is not much of a commitment. Without a more positive statement the analysis should assume a "worst case" analysis; i.e., no mitigation.

12. Page 25, paragraph two: More specific data should be provided on the accessibility of boat ramps. Are all ramps installed with the same degree of slope?

13. Page 25, last sentence: Are there any changes in the timing of the flows (seasonal or daily) that could impact recreation?

14. Page 26: In discussing the percentage change in the various indices, a table showing monthly data should be included to support the conclusions. Additionally, the actual number of boat ramps and visitor use should be included.

15. Page 26, last paragraph: What is the basis for the statement that "no mitigation would be required for recreation." If this is a conclusion drawn from the impact analysis, then it should be stated as such. If there is some other reason(s), it should be included here.

Thank you for the opportunity to review this document.

Sincerely yours,



C. Dale Duvall
Commissioner

ROBERT B. DUNCAN
Chairman
Oregon

Norma Paulus
Oregon

James A. Geller
Idaho

Robert (Bob) Saxvik
Idaho

NORTHWEST POWER PLANNING COUNCIL

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January 25, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: TIE-2-141
RECEIPT DATE:
JAN 26 1988
AREA: DISTRICT
L (OP)

James Jura, Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

cc: L. Larson - AR
S. Stoggs - AL-18
J. Normandeau - ALG

RE: Hydro Operations Information Paper

Dear James:

The Council appreciates the opportunity to comment on Bonneville's Hydro Operations information Paper.

Because of our responsibility to develop and adopt the Columbia River Basin Fish and Wildlife Program which must "protect, mitigate, and enhance" the fish and wildlife of the Columbia Basin, the Council has devoted considerable attention to the effects on fish and wildlife of the operation of the hydroelectric system. From this experience, we offer the following comments in response to Bonneville's Hydro Operations Information Paper.

The first comment is in regard to the methods of analysis and conclusions described by Bonneville in the information paper. Council staff members have indicated several concerns regarding Bonneville's draft analysis. The Council and its staff have consulted with Bonneville regarding each of these concerns and possible means of addressing them.

These consultations have been fruitful. Based on our discussions with Bonneville and after review of Bonneville's paper entitled Explanations Relating to IDU-EIS Analysis, it is now our understanding that Bonneville recognizes that the projected impacts of the intertie development and use alternatives cannot be predicted with certainty, given the limitations in our knowledge and information, and that, where appropriate, these limitations will be acknowledged in Bonneville's final analysis.

Given these consultations and discussions, review of Bonneville's methodology and assumptions as described in its Explanations paper, and our knowledge regarding available study techniques and existing uncertainties, we are able to conclude that the methods of analysis Bonneville proposes to use in its final environmental impact statement are reasonable. In drawing this conclusion, we are made more comfortable by the fact that Bonneville has made it clear that it understands the inherent limitations in its methods, and will be prepared to acknowledge such limitations as appropriate. The Council appreciates Bonneville's indication that it will work closely with the Council's monitoring and evaluation program. In our opinion, the proposed methods of analysis are likely to provide additional information which Bonneville will want to consider before making final judgments and conclusions about possible impacts.

Our second comment goes to the relationship of the Council's Fish and Wildlife Program to Bonneville's National Environmental Policy Act (NEPA) obligations.

As you know, the Council's Fish and Wildlife Program is created pursuant to federal statute to provide comprehensive mitigation for the fish and wildlife losses caused by hydroelectric development and operation in the Columbia basin. When Bonneville's NEPA process identifies impacts on fish and wildlife which fall within the scope of the Program, the Council believes that it is important for Bonneville to continue to be guided by and act consistently with the Program in addressing such impacts.

The Program is developed through a lengthy public process where each of its measures receives vigorous public scrutiny and debate. In developing and revising the Program, the Council receives the best technical advice the region can offer from every interested party in the region. In our opinion, the final document represents as close as the region can get to a consensus on the difficult technical and political issues involved in what is, perhaps, the world's largest biological rehabilitation project.

The present Program includes a number of specific measures designed to improve and maintain the survival of anadromous fish passing up and down the Columbia River. These measures include the water budget, the installation of turbine bypass systems, an interim spill program to last until the bypass systems are installed, a juvenile transportation program, and improvements to the installation and operation of adult passage facilities. In addition, the Council has embarked on a subbasin/system planning process, a three-year program of information gathering and analysis involving the region's fish and wildlife agencies and tribes, as well as Bonneville and other federal agencies. At the conclusion of this system planning process, we should have a better systemwide picture of how the various anadromous fish stocks relate to one another, and therefore have a much better understanding of how future changes in hydro operations and modifications of the Council's Fish and Wildlife Program could affect these stocks.

In developing its Fish and Wildlife Program, the Council was aware that some of the power generated within the Columbia River Basin is sold out-of-region, and that such sales may cause fluctuations in the pattern of river operation when compared to historical usage. The Council has attempted to address these fluctuations by placing within the Program a series of constraints on hydro operations, such as those mentioned above, which are intended to provide for the protection of anadromous fish regardless of whether the power generated is being sold in-region or out-of-region.

If those constraints should prove to be inadequate, should circumstances change, or should additional information become available, the Program may be amended. It is our intention and commitment that the Program will continue to be a flexible and adaptive mechanism for the protection, mitigation, and enhancement of anadromous fish stocks within the Basin. Because of the uncertainty inherent in even the best current analyses of hydro operations impacts on Columbia River fish and wildlife, the Council believes that an impact mitigation and management strategy which constantly adapts as better information becomes available will produce the best long-run results. The Council assumes that Bonneville's operation of the intertie will be flexible enough to accommodate such Program amendments, if any.

In this respect, the Council appreciates Bonneville's commitment to work with the Council and other regional interests in an effort to achieve the goal of jointly developed and commonly accepted analytical methods to monitor and evaluate hydro system impacts on fish and wildlife. Such methods will help build consensus about both possible impacts and proper mitigation and management techniques.

The Council is particularly concerned that specific mitigation measures, taken in isolation, could be detrimental to other anadromous fish in the Basin. For example, an increase in upriver hatchery production could damage other upriver wild and natural stocks. The restoration of the anadromous fish within the Columbia Basin is premised on a complex and comprehensive approach in which the interrelationship of each of the elements is considered. Even a mitigation proposal which does not conflict with the current Program may, if implemented, adversely affect Bonneville's ability to fund other, more critical mitigation projects already in the Program. The implementation of a series of separate, unintegrated mitigation projects could be counter-productive.

The Council recognizes that Bonneville, in fulfillment of its NEPA obligations as it understands them, may wish to identify specific mitigation measures which could be taken in response to possible impacts on fish and wildlife identified through its analysis. The Council believes that mitigation measures not addressed in the existing Fish and Wildlife Program should be considered as amendments to the Program. This will assure that such measures have received full scrutiny from a comprehensive viewpoint, and that they are coordinated with the mitigation projects underway in the present Program.

The heart of the National Environmental Policy Act (NEPA) is to require an agency to think seriously about the environmental consequences of its actions so that issues are sharply defined and that there is a clear choice among options. Now, under the Northwest Power Act, Congress has created a specific mechanism --- the Council's Fish and Wildlife Program --- for mitigation and enhancement of fish and wildlife in the Columbia Basin. We think that it is important for Bonneville to coordinate its NEPA obligations with the Fish and Wildlife Program, and that Bonneville may appropriately look to the Program in satisfaction of at least some of these obligations.

The Council appreciates the serious and open manner with which Bonneville has approached its obligation to fish and wildlife in considering intertie expansion and use. We would be happy to work with you further as preparation of the environmental impact statement proceeds. We look forward to your continued cooperation and assistance in developing and implementing the Fish and Wildlife Program.

Sincerely,

Morris Brusett
Chairman

PART 3

Revised Intertie Access Policy

Revised Draft Long-Term Intertie Access Policy

Close of Comment 2/19/88

Letter Number	Commenter/Affiliation
LTIAP-3-70	David E. Piper, Pacific Northwest Generating Company
LTIAP-3-71	Robert E. Orton, City of Port Angeles, Washington
LTIAP-3-72	James C. Holcombe, San Diego Gas & Electric
LTIAP-3-73	Jon F. Jacquot, State of Wyoming Public Service Commission
LTIAP-3-74	F. Lorraine Bodi, U.S. Department of Commerce - National Marine Fisheries Service
LTIAP-3-75	Stuart Gardiner, Pacific Gas & Electric
LTIAP-3-76	John A. Kwiatkowski, Bureau of Land Management
LTIAP-3-77	Marlin E. Binger, U.S. Department of Transportation
LTIAP-3-78	Stanley Hulett, California Public Utilities Commission & Charles Imbrecht, California Energy Commission
LTIAP-3-79	INCORRECTLY LOGGED, REMOVED FROM COMMENT PACKAGE
LTIAP-3-80	Channing D. Strother, Jr., City of Vernon, California
LTIAP-3-81	Bruce J. Lovelin, Northwest Irrigation Utilities
LTIAP-3-82	John Carr, Direct Service Industries, Inc.
LTIAP-3-83	Kenneth R. Coyle, Ferry County PUD No. 1
LTIAP-3-84	Bill McMillen, Clark-Skamania Flyfishers
LTIAP-3-85	Harold Haake, Wasco County PUD
LTIAP-3-86	Ralph Zusman
LTIAP-3-87	John Whalen, Harvey Warnaca, Robert Olsen Mason County PUD No. 3
LTIAP-3-88	DUPLICATE LETTER - REMOVED FROM LOG
LTIAP-3-89	Gordon F. Snow, Resources Agency of California
LTIAP-3-90	Byron Wagner, Big Bend Electric Coop.
LTIAP-3-91	Wendell Phillips
LTIAP-3-92	Sharon Nelson, Richard Casad, A.J. Pardini, Washington Utilities & Transportation Commission
LTIAP-3-93	Cicely M. McKendrick
LTIAP-3-94	Sandra Grady
LTIAP-3-95	Josephine B.R. von Hippel, M.D.
LTIAP-3-96	Eric Weber
LTIAP-3-97	Michele McKay
LTIAP-3-98	Kristen Shepherd, Washington Wilderness Coalition
LTIAP-3-99	Jolene Unsoeld, Washington State Representative
LTIAP-3-100	Ray Foleen, Non-Generating Public Utilities
LTIAP-3-101	Howard Easton, Basin Electric Power Coop.
LTIAP-3-102	Mark Glaess, Oregon Rural Electric Coop.
LTIAP-3-103	Jack Heaston, Harney Electric Coop.
LTIAP-3-104	Russell Dorran, Umatilla Electric Coop.
LTIAP-3-105	Jack Remington
LTIAP-3-106	David Ives
LTIAP-3-107	Jan Howell
LTIAP-3-108	M. E. Covert
LTIAP-3-109	James L. Sanders, Clark Co. Public Utility District
LTIAP-3-110	Ken Canon, Assoc. of Public Agency Customers
LTIAP-3-111	Robert J. Labrie, Montana Power Co.
LTIAP-3-112	M. E. Hoehne, Longview Fibre Co.
LTIAP-3-113	Joseph R. Blum, Washington Dept. of Fisheries
LTIAP-3-114	B. E. Covin, Pacific Hydro
LTIAP-3-115	William DeBoer

Revised Draft Long-Term Intertie Access Policy

(continued)

Letter Number	Commenter/Affiliation
LTIAP-3-116	Dean Miller, Perry Swisher, Ralph Nelson, Idaho Public Utilities Commission
LTIAP-3-117	Robert V. Myers, Puget Sound Power & Light
LTIAP-3-118	Stephen A. Wille, Southwest Washington Anglers
LTIAP-3-119	Merrill S. Schultz, Intercompany Pool
LTIAP-3-120	Einar Wold, U.S. Department of Commerce - National Marine Fisheries Service
LTIAP-3-121	John L. McMahan, Grant County PUD No. 2
LTIAP-3-122	Gary A. Dahlke, Washington Water Power
LTIAP-3-123	Terence L. Mundorf, Western Public Agencies Group
LTIAP-3-124	Jerry Garman, Public Generating Pool
LTIAP-3-125	Daniel M. Ogden, Jr., Public Power Council
LTIAP-3-126	William S. Whelan, Attorney General, Idaho
LTIAP-3-127	Governor Ted Schwinden, Montana
LTIAP-3-128	Ric Brown, Ravalli Co. Electric Coop., Inc.
LTIAP-3-129	J. Leon Smith, Cowlitz Co. PUD
LTIAP-3-130	Mark Crisson, Tacoma Public Utilities
LTIAP-3-131	J. W. Marshall, Idaho Power Co.
LTIAP-3-132	Ralph Cavanagh, Natural Resources Defense Council
LTIAP-3-133	Robert E. Dyer, Portland General Electric Co.
LTIAP-3-134	Governor Neil Goldschmidt, Oregon
LTIAP-3-135	Al Wright, Pacific Northwest Utilities Conference Committee
LTIAP-3-136	Randall W. Hardy, Seattle City Light
LTIAP-3-137	Jean Reeder, Eugene Municipal Utilities
LTIAP-3-138	Rodney M. Boucher, Pacific Power & Light
LTIAP-3-139	Morris Brusett, Northwest Power Planning Council
LTIAP-3-140	Wilbur Anderson, Vigilante Electric Coop., Inc.
LTIAP-3-141	Joseph W. Nadal, Aleka Kitchen, Pacific Northwest Generating Company
LTIAP-3-142	United States Congress
LTIAP-3-143	Jeanne Norton, Izaak Walton League of America, Inc., Portland Chapter
LTIAP-3-144	Ed & Bonnie - Rod & Evie - Ed & Jennie Schein and Families
LTIAP-3-145	Ronald Gross
LTIAP-3-146	Richard Murray
LTIAP-3-147	Joyce Campbell
LTIAP-3-148	Ruth & Harold Deery
LTIAP-3-149	Sally Stephenson
LTIAP-3-150	Willard D. Fields, Chelan Co. PUD No. 1
LTIAP-3-151	Laura Smith, The Nature Conservancy
LTIAP-3-152	Jack Howerton, Washington Dept. of Wildlife
LTIAP-3-153	David Brown
LTIAP-3-154	Stan Mrzygod, Spokane Canoe & Kayak Club
LTIAP-3-155	Mark Lawler, Sierra Club, Cascade Chapter
LTIAP-3-156	Joseph J. Donofrio, M.D., La Grande Clinic
LTIAP-3-157	Georgia J. Frazier
LTIAP-3-158	Bruce S. Bistline, Bistline Law Office

Revised Draft Long-Term Intertie Access Policy

(continued)

Letter Number	Commenter/Affiliation
LTIAP-3-159	Sharlon Willows, Protect Park Resources, The Coalition
LTIAP-3-160	Kenneth R. Pedde, U.S. Department of the Interior - Bureau of Land Management
LTIAP-3-161	Charles Mabbott
LTIAP-3-162	Don Godard, Canby Utility Board
LTIAP-3-163	Richard Heitman, Benton Rural Electric Association
LTIAP-3-164	Mari Hoffmann-Nelson
LTIAP-3-165	E. Zahn
LTIAP-3-166	Kate Crockett
LTIAP-3-167	Dean Miller, Perry Swisher, Ralph Nelson Idaho Public Utilities Commission
LTIAP-3-168	Laura A. Harders
LTIAP-3-169	Doug Gresham
LTIAP-3-170	Ralph Zusman
LTIAP-3-171	Mike Smith
LTIAP-3-172	Steve Fransen, Skagit System Coop.
LTIAP-3-173	James R. Fry, U.S. Army, Corps of Engineers
LTIAP-3-174	Nancy & Jim Kroening
LTIAP-3-175	Joan Edwards, Sierra Club, Cascade Chapter
LTIAP-3-176	Linda Meister
LTIAP-3-177	Scott Weston
LTIAP-3-178	Harold C. Miles, Idaho Consumer Affairs, Inc.
LTIAP-3-179	Sharon Nelson, Richard Casad, A.J. Pardini, Washington Utilities and Transportation Commission
LTIAP-3-180	Ralph Cavanagh, Natural Resources Defense Council
LTIAP-3-181	Merrill S. Schultz, Intercompany Pool
LTIAP-3-182	James W. Beck, Transmission Agency of Northern California
LTIAP-3-183	Frank Hahn, Sacramento Municipal Utility District
LTIAP-3-184	Sharon Little & Adele Newton, Oregon League of Women Voters
LTIAP-3-185	Ron Koenig
LTIAP-3-186	L. I. Bell, B.C. Hydro
LTIAP-3-187	Robert Kendall, Southern California Edison
LTIAP-3-188	Stuart Gardiner, Pacific Gas & Electric
LTIAP-3-189	David G. Coleman, Western Area Power Administration
LTIAP-3-190	Michael W. McDonald, Northern California Power Agency
LTIAP-3-191	J. Lynn Rasband, Utah Power & Light Co.
LTIAP-3-192	David Mahoney, Los Angeles Dept. of Water & Power
LTIAP-3-193	Robert V. Myers, Puget Sound Power & Light Company
LTIAP-3-194	Jerry Garman, Public Generating Pool
LTIAP-3-195	Gary A. Dahlke, Washington Water Power
LTIAP-3-196	James F. Kenney, San Diego Gas & Electric
LTIAP-3-197	Donald R. Clayhold, Benton Co. PUD No. 1
LTIAP-3-198	Richard E. Dyer, Portland General Electric
LTIAP-3-199	Peter G. Fairchild, California Public Utilities Commission
LTIAP-3-200	Jean Reeder, Eugene Water and Electric Board
LTIAP-3-201	Terence L. Mundorf, Western Public Agency Group
LTIAP-3-202	Al Wright, Pacific Northwest Utilities Conference Committee
LTIAP-3-203	Michael Rossotto, Friends of the Earth
LTIAP-3-204	S. Timothy Wapato, Columbia River Inter-Tribal Fish Commission

Revised Draft Long Term Intertie Access Policy

(continued)

Letter Number	Commenter/Affiliation
LTIAP-3-205	Susan Wood Roy
LTIAP-3-206	Marc Sullivan, Northwest Conservation Act Coalition
LTIAP-3-207	John Murray
LTIAP-3-208	Einar Wold, U.S. Department of Commerce - National Oceanic and Atmospheric Administration
LTIAP-3-209	Millard Trout, Tillamook PUD
LTIAP-3-210	Randall W. Hardy, Seattle City Light
LTIAP-3-211	Dennis Rohr, Mid-Columbia PUDs
LTIAP-3-212	Robert L. Miller, Montana Power Company
LTIAP-3-213	Morris Brusett, Northwest Power Planning Council
LTIAP-3-214	John D. Carr, Direct Service Industries, Inc.
LTIAP-3-215	Marc Sullivan, Northwest Conservation Act Coalition
LTIAP-3-216	Jerry M. Conley, Idaho Fish & Game
LTIAP-3-217	Kent Henderson, Idaho Wildlife Federation
LTIAP-3-218	William Chamberlain, Jonathon Blees, California Energy Commission

6241K

Public Northwest Generating Company
Serving the power needs of our members
Your energy cooperative

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Suite 1480
Portland, Oregon 97232-2044
(503) 235-3500

PNGC

LTIAP-3-70

88-1-4-2

1-4-88

1-19-88

6

AM

December 31, 1987

ALP

Assign: ~~Steinkirchner~~/Cameron
cc: JJJ, JSh, SGE, (AL), Pollock, Hickey, Spigal, Gwinnutt
Due in Jura's Office 1/18/88. Prepare for Jura's signature. Due date must be met.
cc: Coordinator-AL

Mr. Jim Jura, Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

Dear Jim:

PNGC has reviewed Bonneville's revised draft of the Long Term Intertie Access Policy (LTIAP) that was released on December 15, 1987. In most respects we are in agreement with the basic policy direction BPA is pursuing. You are to be commended for your efforts to achieve a resolution of the many difficult issues involved.

As Bonneville's Intertie Access Policy has evolved over the last three years, PNGC has commented extensively on both the Near Term Policy and draft LTIAP. In addition, we have had a number of discussions of these policies with BPA management. Much of our concern has focussed on the type of intertie access that BPA would grant PNGC to support a long term sale of Boardman power to California. We continue to pursue potential sales arrangements and believe we will be able to conclude a sale in 1988.

My purpose in writing to you is not to provide detailed comments on the new draft policy. Those comments will be sent after the public meetings. Rather, my intent is to reaffirm the importance of a firm intertie path to a sale of Boardman power which will achieve the maximum benefits, not just for PNGC and its members, but for BPA as well. A sale of Boardman power at fully-allocated cost would lessen the burden of residential exchange payments now borne by BPA. Such a sale is possible only if firm intertie access is provided for PNGC's share of Boardman.

From our previous discussions with BPA management we have sensed Bonneville's appreciation of the benefits to BPA of a Boardman sale and a desire by Bonneville to provide the type of firm intertie access that will be necessary to market Boardman power. Neither the Near Term Policy nor the proposed LTIAP address the situation of "non-scheduling utilities" in any detail. It has been our understanding, however, that PNGC would be granted assured delivery to support a long term sale of its resource and that the necessary intertie capacity would come from the total capacity reserved for BPA use. The specific amounts of assured access as well as other issues will be defined by contract on a case-by-case basis.

I would like you to confirm that PNGC's understanding of BPA's treatment of a Boardman sale is correct since our discussions with various California utilities are continuing and intertie access remains a key issue. I would hate to agree to the proposed LTIAP now and find out later that Boardman was denied firm intertie access. I would appreciate a response by January 20, 1987.

Sincerely,

David E. Piper
General Manager

DEP/sw

Copy to-
John Cameron, BPA
Ed Sienkiewicz
Walt Pollock
Jim Jones
Tom Noguchi
Marge Nelson

CITY OF PORT ANGELES

240 WEST FRONT ST., P.O. BOX 1150 PORT ANGELES, WASHINGTON 98362
PHONE (206) 457-0411

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # LTIAP-3-71
RECEIPT DATE:
JAN 08 1988
AREA: DISTRICT
T (OS)

January 8, 1988

Donna Geiger
Public Involvement Manager
Bonneville Power Administration
P. O. Box 12999
Portland, OR 97212-0999

Dear Ms. Geiger:

The City of Port Angeles provides the following comments regarding Bonneville's revised draft Long-Term Intertie Access Policy.

The City is generally supportive of BPA's efforts regarding the proposed LTIAP. It is imperative that BPA safeguard its revenues through the procedures contained in the revised draft, particularly proportioning Intertie capacity to the size of the California market. It is important that Bonneville not be saddled with the majority of the region's power surplus.

The City also approves of the change in direction away from long-term firm power sales and towards the increased accommodation of seasonal exchanges between the Pacific Northwest and California. The region's current power surplus may not be as large or long-lived as is now perceived. In accommodating additional seasonal exchanges, however, care must be taken to not allocate too much capacity to the region's generating utilities other than Bonneville.

We agree that BPA should not become another fish and wildlife regulator. Other State and Federal agencies provide plenty of such regulation! Excluding undesirable projects (from a fish and wildlife standpoint) from Intertie access, or some type of compensation from their sponsors, seems like a much more reasonable alternative. Protection of Bonneville's fish and wildlife investments is both prudent and necessary.

The City appreciates this opportunity to comment.

Sincerely yours,

Robert E. Orton
City Light Director

REO:GL:LM
cc: Dan Ogden, PPC
Al Wright, PNUCC

Assign: Geiger-Cunningham-Byrnes
cc: JJJ, JSR, SGH, Cameron, Spiegel, Sienkiewicz, Pollock, Blickey, S. Wright
Note request for 1/12 meeting.

San Diego Gas & Electric

JAMES C. HOLCOMBE
VICE PRESIDENT
FOR GOVERNMENTAL AFFAIRS

January 8, 1988

83-037-08-01

A-88-1-11-2

1-11-88

1-12-88

REGIONAL ENVIRONMENT
LOG: LTIAP3-72
RECEIPT DATE:
JAN 11 1988
AREA: P-3 DISTRICT

Mr. James J. Jura
Administrator
Bonneville Power Administration
908 N.E. 11th Street
Portland, Oregon 97232

Dear Mr. Jura:

I am writing to you to notify you that I will not be able to attend the January 12, 1988 public session on the Intertie Access Policy. I had planned to attend but, unfortunately, a last minute change of plans has made my attendance impossible. Despite my regretable inability to attend the meeting, SDG&E considers this issue very important.

Although I am sure the California panelists will ably express the concerns of California, I would like to take this opportunity to emphasize one specific area of concern. In the Draft Policy the uses for assured delivery preclude peaking capacity contracts and capacity energy exchanges. The reason given by BPA for this exclusion was that little interest has been expressed for these transactions. I can assure you that this is not the case with SDG&E. We are very interested in transactions of this type and excluding them from a long term policy seems to us to be shortsighted. We believe that the best use of the Intertie is for long term transactions that will allow utilities in each region to take advantages of the mating of the Pacific Northwest Hydroelectric resources with the Pacific Southwest fossil resources. An example of this is the Peaking Capacity agreement that we currently have with Washington Water Power which has allowed the customers and rate-payers of both utilities to realize substantial savings over the last twenty years from the efficient use of the resources. We believe that, over the remaining life of the Intertie, there will continue to be instances when similar transactions will benefit both the PNW and California.

Simply closing off Intertie access for specific types of economic transactions between a willing buyer and a willing seller is inappropriate and will lead to waste and inefficiencies in both regions. SDG&E advocates the final policy allow for peaking capacity contracts and capacity energy exchanges.

Jim, I would appreciate it if you would forward this letter to Moderator James Creighton and ask that it be read at the conclusion of the initial remarks of the California Panel.

Sincerely,

James C. Holcombe

JCH/sb

THE STATE OF WYOMING

Assign: Sienkiewicz/Cameron - AM
cc: JJJ, JSR, SGH, Laffel/Geiger-AL, Pollock-P

Respond direct
cc: J. Scott - ALG

SULLIVAN
OVERNOR

Public Service Commission

HERSCHLER BUILDING
122 W. 25TH STREET (307) 777-7427 CHEYENNE, WYOMING 82002

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COMMISSIONER

ALEX J. ELIOPULOS
CHIEF COUNSEL AND
ADMINISTRATIVE SECRETARY
STEPHEN G. OXLEY
MANAGEMENT SERVICES
ADMINISTRATOR

December 14, 1987

12-17-5

12-17-87

1-4-88

RECEIVED BY EPA
PUBLIC INVOLVEMENT
LOG: LTIAP373
RECEIPT DATE:
JAN 11 1988
AREA: DISTRICT

Mr. James Jura
Administrator
Bonneville Power Administration
P. O. Box 3621
Portland, OR 97208-3621

RE: Intertie Access Policy

Dear Mr. Jura:

We note with interest that your organization is progressing toward a final long term Pacific Coast Intertie Access Policy. We also note with interest that Bonneville has reserved for itself the right to market its surplus power first over that portion of the intertie which it owns.

As a matter of fairness Bonneville should allow those electric utilities in the Pacific Northwest who own and operate thermo generation access to Bonneville's share of the intertie when those utilities experience surplus generating capacity in their systems. This thermo generation, which is available to the Pacific Northwest during drought conditions, benefits all of the Pacific Northwest including Bonneville. Since Bonneville derives such a benefit it should then give some consideration to these facilities and their owners when the Pacific Northwest is experiencing surplus conditions.

We have stated this position before and we wish to reiterate it now. Please apply these comments to any action your administration may be taking regarding the Intertie Access Policy. If you should have any questions regarding our position, please contact us. We would be happy to assist you in redesigning the Intertie Access Policy to accomplish our goals.

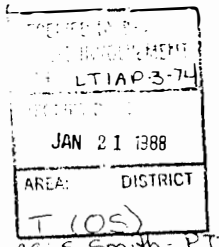
Sincerely,

JON F. JACQUOT
Chief Engineer

JFJ:gp

U.S. DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
Office of General Counsel, GCNW
7600 Sand Point Way N.E., BIN C15700
Seattle, Washington 98115
(206) 526-6075; FTS 392-6075

January 19, 1988



cc S. Smith - PJI
J Normandeau - MC

Walt Pollock
Power Manager
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208

RE: Revised Draft Intertie
Access Policy (December 15, 1987)

Dear Mr. Pollock:

At recent public meetings to discuss the revised draft Intertie Access Policy (IAP), some of the region's utilities questioned the policy's fish and wildlife provisions in light of mandatory power purchases under the Public Utility Regulatory Policies Act (PURPA). A review of the current status of PURPA reveals that the utilities' concerns are largely exaggerated given the many hurdles that face a hydroelectric developer seeking PURPA benefits.

In October 1986, PURPA was substantially revised and narrowed by the Electric Consumer Protection Act (ECPA), Pub. L. No. 99-495. The categories of hydroelectric projects qualifying for mandatory purchase under PURPA are now severely restricted. First, benefits can still be sought for new hydroelectric development at existing federal dams, an extremely limited class of projects. Second, benefits can be sought for a project using a new dam or diversion only if it meets four protective conditions: (1) the project has no substantial adverse effect on the environment, including recreation and water quality; (2) the project is not located on an existing or potential state or national wild and scenic river segment; (3) the project is not located on a river segment determined by a state to "possess unique natural, recreational, cultural, or scenic attributes" that would be affected by hydroelectric development; and (4) the project is subject to conditions set by fish and wildlife agencies to prevent loss or damage to fish wildlife resources. Needless to say, it will be difficult for a hydroelectric project located in a protected area to meet these conditions, given the environmental rationale underlying protected area designations.

ECPA's new limitations apply to all licenses and exemptions sought or issued after October, 1986. However, even projects that meet these limitations are subject to a moratorium. ECPA requires the Federal Energy Regulatory Commission (FERC) to prepare a report on whether PURPA benefits should apply to any project using new dams or diversions. The law imposes a

moratorium on PURPA benefits for such projects that extends until the end of the second session after FERC submits the report to Congress. The report is currently in draft form and has just been made available for public comment.

There are only three exceptions to ECPA's new environmental limitations and to the moratorium. PURPA benefits may still be obtained (1) if a hydroelectric license application (but not a preliminary permit application) was accepted by FERC before October 1986; (2) if a hydroelectric license application (but not a preliminary permit application) was submitted before October 1986, is accepted by FERC within three years, and falls outside of the protected river segments described above; or (3) a license application was submitted after October 1986, satisfies the first three conditions described above, and the applicant expended substantial monetary resources prior to October 1986. Considering that more than three quarters of pending applications in the region are for preliminary permits, the first two exceptions are not applicable to most projects covered by the IAP. And only one project in the region has requested an exception under the third exception relating to monetary resources.

Because of the successive environmental and procedural hurdles posed by ECPA, few hydroelectric projects in the region will remain eligible for PURPA benefits. Thus, the region's utilities will only be required to make mandatory power purchases under PURPA in unusual cases.

Of course, the likelihood of mandatory purchase under PURPA is even further reduced because "avoided costs" are now relatively low compared with the costs of new hydro development and construction. The provisions of the IAP, specifically the automatic decrement requirement, should help to ensure that avoided costs remain relatively low.

Under these circumstances, PURPA should pose no impediment to adoption of the revised IAP. Please feel free to circulate this letter for discussion purposes at your January 20, 1988 public meeting.

Sincerely,

Lorri Bodi

F. Lorraine Bodi
Staff Attorney

cc: Donna L. Geiger, Public Involvement Manager
John Cameron, IAP Project Manager
Merritt Tuttle, NMFS

Pacific Gas and Electric Company

Also logged:
LTIAP-3-75

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: TIE-2-127
RECEIPT DATE:
DEC 31 1987
AREA: DISTRICT
P-3

VIA FEDERAL EXPRESS

December 30, 1987

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration - ALP
Federal Building East
905 N.E. 11th Avenue
Portland, Oregon 97232

cc: ALG

Re: Comments on Hydro Operations Information Paper

Dear Ms. Geiger:

In response to the November 13, 1987 invitation of Bonneville Power Administration (BPA) to comment on its Hydro Operations Information Paper ("Paper"), Pacific Gas and Electric Company (PG&E) submits the following comments. PG&E does so in the context of our several previous written comments on BPA's Long-Term Intertie Access Policy (LTIAP) and the draft Intertie Development and Use Environmental Impact Statement (IDU DEIS).

PG&E is pleased that many of the changes BPA has made in modeling hydro operations address issues PG&E raised in its comments of January 14, 1987 on the IDU DEIS. However, while BPA has clearly made many improvements in the modeling of the power system as it actually operates, PG&E had some difficulty commenting on the substantive results.

BPA reported its assessment of the modeling results but explained many of the modeling changes only in very general terms and provided little information on which specific changes accounted for the changes in results. PG&E would have found it helpful if BPA had described further how the modeling changes had affected results, particularly compared to BPA's July 1987 studies. Therefore, PG&E's comments on the Paper are directed to specific modeling issues and necessary clarification of BPA statements.

Because PG&E cannot clearly understand the significance of the individual modeling changes on the results and on the

conclusions, PG&E requests that BPA's Record of Decision (ROD) on the LTIAP and the final IDU EIS further clarify the significance of key modeling assumptions. In addition, if addressing PG&E's comments on modeling changes has the potential to affect BPA's study results significantly, then BPA should make a further assessment and either identify possible impacts or demonstrate the absence of likely impact.

Comments on the ANALYSIS Section

Alternatives-Nonfirm Allocation. Under the Proposed Policy allocation method (Paper, pp. 3-4), BPA's model assumes that Condition 2 is in effect whenever the amount of surplus Pacific Northwest (PNW) energy equals or exceeds the scheduled Intertie capacity and Condition 1 is not in effect. Given the use of "likelihood of spill conditions" in defining Condition 1, BPA allows itself broad discretion to determine that Condition 1 is in effect. PG&E thinks that BPA's modeling understates the period during a year that both Conditions 1 and 2 are in effect.

In practice, PG&E has observed that BPA declares Condition 2 in effect during periods when the energy available to fill the Intertie can be sustained for the next day but not necessarily more than one day. If the demand in California is not sufficient to fully utilize the available surplus energy declared, then the unsold energy is carried forward to subsequent declarations. On the next day this unsold surplus energy, plus any newly available energy, may be sufficient to fill the Intertie PNW again. In this situation California faces a "rolling" Condition 2 even though the PNW cannot sustain sales over the Intertie at full capacity for more than a day or so. The result is that while BPA is ostensibly allocating the Intertie, it is in effect allocating the California market.

The fact that this takes place is demonstrated by data in the comments of the Montana Power Company on BPA's proposed LTIAP, dated January 16, 1987 (p. 58), which shows that BPA alone declared available over 6000 average MW in each month from August through December 1986. Yet BPA's sales averaged only 1400 average MW over the same period. Total Intertie sales during this period ranged between 3500 and 4000 average MW, with one month at about 2900 average MW. In addition, PG&E commented in its January 14, 1987 letter to BPA about the LTIAP that BPA had not addressed the issue of wasted allocations (p. 30). An allocation is wasted when a PNW utility does not make full use of its allocation and is unable or unwilling to let another party, BPA for example, use its reserved capacity. Thus, BPA's modeling of Condition 2 may grossly understate the degree of control which the IAP imposes on power marketing over the Intertie.

The ability of PNW utilities to declare surplus energy based on short-term deliverability seems to be missed in the modeling conventions BPA has used.

The effect of this variation could well be significant. The model may be showing far too few times when allocation methods (i.e., Conditions 1 and 2) are in effect. PG&E expects that the result would be to make the Proposed Policy closer operationally to the Hydro First policy and to increase the environmental impacts associated with the Hydro First policy. PG&E expects this because it presumes that increased use of the allocation methods will increase environmental impacts, given that the Pre-IAP scenario shows that nonfirm allocation-related impacts are minimized in an unrestricted marketing environment. Also, when the market is less than available Intertie capacity, hydro-based energy would fill the available market first. In addition, since some PNW utilities declare surplus energy from thermal sources that could not economically supply the market, more of the marketable supply represents hydro resources.

To capture this effect in the modeling, BPA should assume that Condition 2 can occur at levels of surplus energy availability well below Intertie capacity and even below the California market. Thus, the resource operation and marketing impacts under allocated conditions should be represented at surplus energy levels as low as 50% of Intertie capacity, to test for adverse impacts. In addition, BPA should further recognize that hydro-based energy will most likely serve the available market, particularly while oil and gas prices are low, so long as hydro conditions are not well below normal. To verify its study results, BPA should identify the time its models determine that Conditions 1 and 2 are in effect and compare this to actual results for similar circumstances. For example, while the period between September 1984 and December 1986 represents below average PNW hydro conditions, BPA data showed Condition 1 or 2 in effect over 80% of the time.

Alternatives-Firm Marketing. In its January 14, 1987 letter on the LTIAP, PG&E commented that BPA should include seasonal capacity exchanges in its modeling of interregional transactions (p. 32). At page 4 of the Paper, BPA states that the second level of long-term contracts includes "a variety of generic contracts." PG&E requests that BPA describe the amounts, types and terms of various power contracts assumed (e.g., firm power sales, peaking capacity sales, capacity for energy exchanges, seasonal power exchanges). BPA must demonstrate that either the type of contract makes no difference on environmental impacts or that BPA's generic mix reasonably approximates a worst case set for environmental impact.

The Pacific Northwest Utilities Conference Committee (PNUCC) already has identified contract types and amounts to give BPA guidance in its current study of the potential impacts of non-federal participation in the Third AC line. The scope of BPA's firm marketing environmental impact assessment should recognize the expressed marketing interests of PNW utilities. No utility should have to face the prospect that it could be denied transmission access for the transactions it desires because BPA failed to study it in its environmental impact review. Given what BPA knows about PNW utilities' expressed marketing interests, failure to study that pattern of transactions, unless BPA can clearly conclude that it is environmentally benign, would be a serious flaw.

BPA's ROD and IDU EIS should either unequivocally state that no transaction has been identified that causes significant environmental impact or BPA should identify any contract type and associated quantity that could result in significant environmental impacts.

General Analytic Structure. PG&E repeats its January 14, 1987 comment (p. 30) that BPA recognize and consider in its development of assumptions the limitations inherent in the modeling process. Actual operation of a power system involves the concurrent decisions of the many operating utilities in the PNW and California. Modeling the operation of this system should recognize a degree of utility independence, and BPA's formulation of assumptions should attempt to recognize possible associated impacts. Where necessary, BPA should use its best judgment to evaluate the effects of modeling limitations.

PG&E recognizes the complexity of the modeling process. There is both a risk of not finding a potential impact and, as here, finding an impact as a result of modeling errors. In its SL-87 rate projection studies, BPA found that the use of certain "seed" values in the System Analysis Model produced an aberration in the forecast. Here BPA's use of four selected forecast years suggests BPA ought to at least spot test other years to assure that results in one year are not due to something unique in the modeling for that year.

Changes in Analysis -- Draft EIS vs. Current Studies. It is apparent that the magnitude and substance of the changes BPA made to its modeling is great. PG&E appreciates that BPA has highlighted the changes it considers to have had the most effect. Review of the Paper would have benefited from additional discussion of how each change in isolation would have affected results.

PG&E is confused by BPA's statement that it selected for discussion "the changes that have been of greatest



importance in terms of their effect on the best study results." This suggests that BPA's evaluation centers on cases which already showed little impact. Of greater significance would be the changes that had the most effect on conditions previously identified (i.e., in the July 1987 studies) as having the most severe adverse environmental impact. Again, reviewers would be greatly benefited by discussion of how each change affected results.

McNary 100-Percent Flow Limitation. PG&E questions what this assumption means in terms of actual marketing impact. In particular, BPA describes this limitation as affecting "discretionary" nonfirm energy sales in winter through early summer. Does BPA's model consider a nonfirm sale in January or February to be discretionary, even though if such power is not sold it may be spilled later (i.e., in March or April)? Power is often marketed based on the perception of the future, and often this perception proves incorrect. PG&E wonders if in this case BPA is giving its model instructions to follow which would be implemented differently by its operations or if BPA's model uses perfect information to judge what actions to take. In particular, is a sale that looks discretionary to the model in reality a spill condition sale to the system operator who acts on the best information available at the time?

In addition, PG&E thinks BPA operators would likely find themselves faced with a decision either to draft reservoirs early to serve an available market or to take the risk that if they do not draft early (and accept forced spill at McNary), there may be a much smaller market or lower prices later (e.g., because California hydro is high). PG&E is not certain what magnitude of spill BPA operators might tolerate under such conditions, but recent experience suggests that BPA might operate aggressively with the expectation of maximizing revenue.

As PG&E noted in its January 14, 1987 comments, it is common practice in other BPA studies to test the sensitivity of key assumptions (p. 14). Because this assumption appears to be one of the most important, BPA should study at what point (i.e., what level of allowed spill at McNary) significant environmental impacts will occur. Then the likelihood of spill should be reassessed in light of the observations above.

Variable Nonfirm Rate. BPA should clearly describe how its variable nonfirm rate influenced modeling results compared with its predecessor. What operating changes resulted? Prior to implementing the variable rate, BPA had downward rate flexibility which should have provided the ability to respond to changing market conditions. BPA should also describe what the marketing and pricing logic is and (as



suggested in PG&E's January 14, 1987 comments at p. 30) provide an evaluation of how well this compares to experience.

PG&E is concerned that the nonfirm rate structure can dramatically affect marketing results. PG&E questions whether BPA's marketing logic used in the Paper, if it is based on maximizing revenue, assumes a degree of market knowledge not observed in actual practice.

Oil and Gas Price Forecast. BPA incorrectly characterizes the effect of lower fossil fuel prices on California utilities. Lower fuel prices do not reduce the demand or the market to displace oil and gas generation. While the price at which it is economic to displace oil and gas generation clearly changes, the quantity of such generation available for displacement does not change.

Comments on the FINDINGS Section

Hydroelectric System Operations-Analyses. As PG&E noted above, BPA should verify through spot checks that the four years chosen do not have any unusual characteristics that would make them poor representations.

BPA should describe some of the major limitations associated with its models (e.g., single utility operations) and attempt to choose assumptions that will not miss potential significant impacts. BPA should describe briefly the latitude that it has in actual operations that is not represented. In particular, BPA should describe how environmental concerns are addressed in the exercise of such latitude for system operations.

Effects of Nonfirm Allocations. PG&E appreciates BPA's description of the cause of the reduced environmental impact (i.e., nonfirm rate structure and reservoir drafting restrictions) but requests that BPA explain how the rate structure itself contributes to this effect. This finding suggests that BPA's nonfirm rate structure could affect the environment, with implications for whether BPA rate decisions merit findings of no significant impact.

At this time PG&E considers the actual environmental impact (excluding economic impacts) of BPA's current nonfirm rate structure to be undetermined. However, it is apparent that the effect of a rate structure on BPA's modeling studies used to predict environmental impacts could be significant.

BPA should explain why the Proposed Policy alternative produces a decrease in total hydro system generation. BPA should provide data showing the separate PNW hydro and thermal generation quantities and the prices at which power

is sold under each of the alternative cases. Because the operation of resources follows pricing, BPA should provide meaningful price information to allow reasonable review of these results.

One possible explanation for these effects may be that the change in rate structure has shifted BPA's marketing towards maintaining higher prices instead of maximizing surplus sales. This would explain the reduction in hydro sales and the reductions in total sales (determined from data BPA provided to PG&E) under the IAP alternatives cases versus the Pre-IAP cases.

Thank you for this opportunity to comment. Please let me know if you have any questions about these comments.

Sincerely,

Stuart K. Gardner

RAB:gcw

cc: California parties

IN REPLY REFER TO:
1515 (930)

United States Department of the Interior

BUREAU OF LAND MANAGEMENT
222 North 32nd Street
P.O. Box 36800
Billings, Montana 59107

January 14, 1987

LTIAP-3-76
JAN 22 1988
DISTRICT
um (OKK)

Donna L. Geiger, Public Involvement Manager
Department of Energy
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

Dear Ms. Geiger:

We have reviewed the Bonneville Power Administration's (BPA) Revised Draft Long Term Intertie Access Policy (Long Term IAP) and offer the following comments:

1. Definitions - Definition numbers 5 and 14 appear to contradict each other in terms of being in the region or being out of the region.

2. General - BPA, by virtue of its dominant role in the Pacific Northwest, controls most east-west and north-south transmission. This transmission grid is the interstate highway on which interregional electric commerce must depend. Montana and the Dakotas are rich in coal and gas and are producing electricity for export. Since the BPA transmission grid is a federally-owned system, it should be managed to ensure room for transmission of the Montana-Dakota surplus in the interest of minimizing the need for additional corridors.

Thank you for the opportunity to comment. If you have further questions concerning these comments, please feel free to contact Jim Beaver at 406-657-6815 or Al Evans at 406-657-6090.

Sincerely,

John A. Kwiatkowski
Deputy State Director
Division of Lands and Renewable Resources

U.S. Department of Transportation

Federal Aviation Administration

Northwest Mountain Region
Colorado, Idaho, Montana, Oregon, Utah, Washington, Wyoming
1601 Lind Avenue, S.W.
Renton, Washington 98055

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # LTIAP-3-77
RECEIPT DATE:
JAN 22 1988
AREA: DISTRICT
T(OS)

January 13, 1988

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

Dear Ms. Geiger:

We have reviewed the Long Term Intertie Access Policy and have no comments.

We thank you, however, for the opportunity to review the document.

Sincerely,

Marlin E. Binger

Marlin E. Binger
Policy and Planning Officer

STATE OF CALIFORNIA
GEORGE DEUKMEJIAN, Governor

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Assign: Cameron
cc: JJJ, JSR, SGH, Geiger
Pollock, Sienkiewicz,
Spigal, TCByrnes, Hickey

LTIAP-3-78

RECEIVED BY BPA
ADMINISTRATOR'S
OFFICE LOG #: 88-1-11-4 fax
RECEIPT DATE: 4:43 pm
1-11-88
DUE DATE:
1-26-88

January 11, 1988

James J. Jura
Administrator
Bonneville Power Administration
908 N.E. 11th Street
Portland, Oregon 97232

Dear Mr. Jura:

On behalf of the various representatives from California who met with you on August 18, 1987, we are writing to express our continued interest in beginning negotiations with the BPA and other interested parties in the Pacific Northwest for the purpose of developing a mutually acceptable arrangement to govern access to the Pacific Intertie. Unfortunately, the process you have announced for public discussion of the BPA's proposed Long Term Intertie Access Policy will likely discourage the candor necessary to develop such an arrangement. Quite clearly, participants in a public process have little if any inclination to reveal their proposals for compromise and settlement. Compounding this problem is the very limited time you have set aside for completion of the LTIAP.

We understand that you believe legal and political necessities prevent the BPA from engaging in private negotiations. We think that these difficulties can be overcome, however, by conducting private discussions among representatives from California, the BPA, and other interested parties in the Pacific Northwest in a process parallel to that which you have announced. In this way, we can work constructively to resolve the issues now confronting our two regions, while at the same time providing members of the public with ample chance to make their views known on any agreement we may reach.

In closing, we want to leave no doubt that California is ready and willing to resolve these issues as quickly as possible. We hope, therefore, that on further reflection you will reconsider your decision to restrict discussion of the proposed LTIAP to public meetings. Certainly, with time of the essence, we should not waste this unique opportunity to achieve a new era of cooperation.

Sincerely,

Stanley W. Hulett

Stanley W. Hulett
President, California
Public Utilities Commission

Charles R. Imbrecht

Charles R. Imbrecht
Chairman, California
Energy Commission

LTIAP - 3 - 79 REMOVED FROM COMMENT LOG

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OF COUNSEL
DAVID C. HJELMFELT

January 29, 1988

BY AIR COURIER

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-80
RECEIPT DATE:
JAN 29 1988
AREA: DISTRICT
P-3

Mrs. Teresa Cunningham Byrnes
Acting Public Involvement Manager
Bonneville Power Administration
1002 N.E. Holladay
Portland, Oregon 97212

Re: Revised Draft Long-Term Intertie
Access Policy BPA File: LTIAP

Dear Mrs. Byrnes:

Pursuant to the January 21, 1988 Federal Register notice, the City of Vernon, California submits its comments on the Revised Draft Long-Term Intertie Access Policy.

As noted in Vernon's previous comments on Intertie access matters, Vernon owns and operates a system for the purchase, distribution and sale of electric power and energy. At the present time, Southern California Edison Company is Vernon's major supplier of firm power, however, Vernon also purchases firm capacity from the Hoover project and the California Department of Water Resources, supplies a portion of its needs with its diesel generating plant and its share in the Palo Verde Nuclear Generating Station, and purchases non-firm energy from various sources.

Vernon desires to purchase power and energy from Northwest suppliers, including BPA, but at present is unable to obtain meaningful access to transmission on the Intertie through the California Intertie owners. In order to obtain access to the Intertie, Vernon has, among other things, sought to participate in the upgrades to the DC and AC Intertie lines, and has brought suit under the antitrust laws against Edison.

Vernon is a participant in the development phase of the third AC Intertie line which, if approved and constructed, is expected to go into service in the early 1990's.

Since Vernon's last comments on the proposed Intertie Access Policy BPA has entered into a letter of intent to sell power to Vernon and has made substantial efforts to obtain transmission to complete that sale. As referenced in Administrator Jura's October 19, 1987 written statement to the House Subcommittee on Water and Power Resources on at p. 10, Southern California Edison Company has flatly refused to make Intertie transmission available to BPA for BPA sales to Vernon even as a part of the larger proposed BPA/Edison agreement. Thus, BPA has direct, continuing experience with the obstacles that face Vernon and other southern California cities without direct Intertie access in purchasing power from BPA and other Northwest entities.

Vernon heartily endorses BPA's efforts to reach the California Cities that do not have Intertie access. The proposed purchase from BPA is less expensive than power from the other sources available to Vernon. Vernon views Northwest power generally as potentially the least costly resource, at least over the long run. To argue, for instance, as others have, that cogeneration will displace Northwest power seems to Vernon to be unpersuasive given the nature of the underlying resources in each instance.

Vernon supports BPA's analysis of the California market. 50 Fed. Reg. at 1664, "Policy Section, Antitrust Concerns." Vernon is unable to obtain access even to the unused Intertie transmission ordered by the Administrative Law Judge in FERC Docket No. E7777 in this time of low oil and gas prices. When gas and oil prices again rise and there is an Intertie Access Policy in place, Vernon doubts very much if there will be any unused capacity on the Intertie. Edison has in effect stated that there is no unused Intertie capacity when Northwest energy is attractive to the Intertie owners. See Robert L. Myers April 20, 1978 letters to Anaheim and Riverside. Over the long run, the difference in the nature of power production in the Northwest and in California is bound to result in large amounts of sales south.

As the ALJ determined in Docket No. E7777, the Pacific Intertie is an essential facility for Northwest-Southwest sales. The investor owned utilities continue to divide their Intertie and their purchases on a pro rata share basis.

Vernon supports the concept that BPA look again at the Intertie Access Policy if and when the third AC interconnection is completed, but Vernon asserts that the presumption of Section

5(d) should not be that the market power of the existing Intertie owners is reduced upon completion of that line. If the third AC line is completed, the issue at that time should be whether or not the utilities that today do not have meaningful Intertie access have at that time obtained access equivalent to that of the present Intertie owners. As presently arranged the construction of the third AC line should not be assumed to mitigate the market power of the current Intertie owners.

The third AC line is a very expensive project that is far from a sure thing. The DC upgrades and previous upgrades, from which the California owners have precluded participation by the "have-not" utilities" (such as Vernon), were much more economically feasible. Moreover, even with completion of the third AC line, Vernon's rights in the Intertie are not qualitatively or quantitatively proportional to Edison's rights. Attached with these comments is Vernon's November 10, 1987 letter to Chairman Miller of the House Representatives Subcommittee on Water and Power Resources which, at pages 5-6, explains why a share in the new AC line, even if it is completed, is not equivalent to a share in the existing Intertie. Vernon asks that this letter and its earlier written testimony to the Subcommittee, also attached hereto, be incorporated as a part of its comments on the proposed policy.

Section 5(d)(2) of the proposed policy, which provides that Section 5(d) shall be inoperative if "Southwest utilities utilize some pro rata scheme to allocate energy purchases over the Intertie", would be triggered immediately on completion of the third AC line. The "Supplemental Letter Agreement to third 500-kV AC Line MOU," executed at the same time as the Third AC Memorandum of Understanding, December 18, 1984, specifically provides that:

> when Bonneville Power Administration is allocating non- firm energy for export out of the Pacific Northwest and the availability of such energy is less than the total available transfer capability in the then-existing interties (including the Project), ... said Participants will share in the limited availa-bility of such energy on a pro rata basis according to their respective allocations on all AC interties.

The thrust of this provision, of course, is to deprive municipal participants in the third AC line of their preference rights to BPA power. Vernon was forced to execute this supplemental letter agreement as a condition to its participation in the third AC line. The agreement obviously contravenes Section 5(d)(2) and should provide BPA with evidence as to the present Intertie owners' intent.

Vernon's position, as stated in its previous comments, is that BPA should flatly refuse to sell to the Intertie owners in the Southwest until they make transmission access available to Vernon. BPA has taken steps in the right direction by recognizing the southern monopsony for what it is and standing up to the heat brought by the other California entities before Congress and in other Fora. Vernon knows how lonely it can be.

Vernon also endorses BPA's insistence that the process of considering and implementing the Intertie Access Policy remain public and not be subject to back room deals as apparently other California parties would prefer. If discussions cannot withstand the light of day they should not be engaged in. In this regard BPA should not be misled into thinking that any other California party speaks for Vernon. Mr. Imbrecht's statements to the contrary (January 12, 1988 transcript at p. 413), the CEC group, in particular, does not speak for Vernon. Vernon is not invited to that group's meetings and is not asked for its opinion in the preparation of their position statements.

In closing, Vernon has lingering concerns about proposed Firm displacement sales. Vernon has commented on the proposed firm displacement program in the FD contract principles proceeding and in the FD rate proceeding. Vernon will not repeat that discussion here except to state that a sale of displaced power under the FD program is in effect a sale of BPA power and to the extent necessary this fact should be reflected in the Intertie Access Policy. For instance, pursuant to the public body preference, a direct sale of BPA surplus power or a sale of FD displaced power to a public body in the southwest must be given priority, including transmission priority, over a direct sale of BPA surplus power or a sale of FD displaced power to an investor-owned utility in the Southwest. This priority should be reflected in the access policy. The presently proposed policy implicitly recognizes that a sale by a northwest utility made possible by a sale to that utility by BPA under the FD program is the equivalent of a sale out-of-region by BPA because firm dis-

placement contracts are not subject to the Exhibit B limits and come within Section 2(c) of the proposed policy.

BPA should also bear in mind in the development and implementation of the access policy that, if Vernon obtains access to the Intertie at all in the near term, access may well be on an hour-to-hour interruptible basis only. Thus, mechanisms should be adopted so that entities like Vernon have access to Northwest energy and are not precluded from such purchases because of prescheduling requirements.

Vernon appreciates the opportunity to comment on these matters.

Very truly yours,

Channing D. Strother, Jr.
Attorney for the City of
Vernon, California

CDS/jeg

Enclosures

cc: Mr. John A. Camaron, Jr. (by air courier)
David B. Brearley, Esq.

(10 of 3)
Attachment:
LTIAP-3-80

CITY COUNCIL

LEONIS C. MALBURG, *Mayor*
THOMAS A. YBARRA, *Mayor Pro Tem*
Wm. "BILL" DAVIS
H. "LARRY" GONZALES
W. MICHAEL McCORMICK

TELEPHONES

CITY CLERK.....583-8811
POLICE DEPT.....587-5171
FIRE DEPT.....583-4821
BUILDING DEPT.....583-8811
PUBLIC WORKS DEPT.....583-8811
HEALTH DEPT.....583-8811

CITY HALL

4305 SANTA FE AVENUE, VERNON, CALIFORNIA 90058

OFFICERS

BRUCE V. MALKENHORST,
City Administrator/City Clerk

DAVID B. BREARLEY,
City Attorney

VICTOR H. VAITS,
Director of Community Services

LEWIS R. ADAMS,
Director of Water & Power

GEORGE F. BASS,
Fire Chief

AL ESPINOZA
Police Chief

In Reply Refer to:

November 10, 1987

Chairman George Miller
Subcommittee on Water and Power
Resources
Committee on Interior and Insular
Affairs
U.S. House of Representatives
Washington, DC 20515

Re: BPA Intertie Access Policy
Oversight Hearing on October 14, 1987

Dear Chairman Miller:

Since BPA Administrator Jura appeared before the Subcommittee on October 14, 1987 to update Subcommittee members on Pacific Intertie matters, I would also like to take this opportunity to update the Subcommittee on the continuing denial of access to the southern portion of the Intertie to municipalities such as the City of Vernon. I would also like to respond to matters raised in supplementary written statements presented for the record of the May 7, 1987 hearing by Southern California Edison Company (Hearing Volume, pp. 695-702) and Pacific Gas & Electric Company (Hearing Volume, pp. 681-92). I ask that this letter be made part of the record of the October 14 hearing.

As noted by Administrator Jura in his October 14 written statement at page 10, BPA has offered power to Vernon but Vernon remains unable to obtain firm transmission on the Pacific Intertie. The Administrator indicates that Edison continues to hold to its determination that it will not provide firm access to the existing Intertie to any of its resale cities and as far as Vernon can tell this is the continued position of the other investored-owned utility Intertie owners. The position seems to be that if the owners desire their Intertie share for any reason

whatsoever, access will be denied to others. Edison has also specifically denied Vernon's June 30, 1987 request for firm transmission on the Pacific Intertie beginning January 1, 1989 for a purchase by Vernon from BPA, citing the same reasons it has always cited in denying access to the Intertie. October 2, 1987 letter of Larry E. Williams, Edison Resale Accounts and Power Contracts Manager. The power offered by BPA was by far the least costly available to Vernon, which is contrary to the assertions by various parties that other sources of power are competitive with BPA.

Moreover, the Subcommittee should be aware that when the South Gate city government decided to take over the Edison distribution facilities within its city limits, an action based in part upon studies that showed that the potential availability of BPA power to it would make the municipal operation very feasible, Edison responded with fierce opposition including a massive public relations campaign. Under this enormous pressure, South Gate has apparently postponed its efforts to take over electric service to its citizens. Edison's actions are simply another reflection of its intent to keep BPA power from going directly to municipalities in its service area, including newly created municipal utilities.

Vernon is very concerned that the focus of these Subcommittee hearings has turned to pressuring BPA to make concessions without addressing the concessions that should be made by the Southern Intertie owners. At the October 14, 1987 hearing you referred to BPA as holding all of the cards. This is not true. The California owners hold very strong cards in the form of Southern Intertie access and should be forced to play them in the form of providing reasonable access to the Southern portions of the lines.

As I said in my previous statements, the third AC line may or may not be completed. Moreover, Edison has now asserted that Vernon's rights in that line are not unconditional and that Vernon may only use the transmission for resources "integrated"*/ with Edison resources in contrast to other resources Vernon may utilize to simply reduce its purchases from Edison. April 7, 1987 letter of Larry E. Williams, Edison Resale Accounts and Power Contracts Manager. Vernon vehemently asserts that this re-

*/ "Integration" refers to a methodology by which Edison gives a resale city certain credit for off system purchases under what Vernon considers disadvantageous terms. These terms are the subject of ongoing litigation between Vernon and Edison. An FERC Administrative Law Judge has found these terms to be unjust and unreasonable. 27 FERC ¶63,052 (1984).

striction is improper. The California owners insist on relief now from the Intertie Access Policy but would put off any relief for those without Intertie access to, at best, some uncertain time in the future at which time the California owners may have pre-empted all of the BPA firm power available.

PG&E in its May 27, 1987 additional comments (Hearing Record, p. 686) accuses Vernon of putting its interests ahead of certain state residents and seems to denigrate Vernon's position based upon Vernon's relatively small number of residents and customers. One might reasonably ask whether, if Vernon is so insignificant as PG&E seems to imply, some provision for Intertie access could not be made to Vernon to obviate the claims of a restricted Southern market. As I said in my previous statements, Vernon may have relatively few residential customers, but businesses served by Vernon employ some fifty-five thousand people and constitute an important part of the local economy of east Los Angeles. If such commercial and industrial customers were unimportant, Edison and PG&E would not go to the lengths they go to to acquire and retain them. PG&E apparently mistakes its own interests for the interests of the citizens of California. Was it a General Motors executive that once said "what is good for GM is good for the country"?

Vernon is neither parochial or selfish. Vernon believes that a more competitive and open market in California would benefit California generally, something that a perpetuation of restrictions imposed by the larger utilities will not do. Vernon believes that others feel the same way judging by the ongoing proceedings in FERC Docket No. E-7777 and the U.S. Central District Court in California. Like PG&E, Vernon would refer the Subcommittee to the briefs and record of those cases for a fuller illumination of the positions taken therein.

Both PG&E (Id.) and Edison (Hearing Volume, p. 701) seem to criticize Vernon because its statement to the Subcommittee was the form of a written statement rather than oral testimony. Vernon duly requested time to present a speaker to the Subcommittee at the May 6, 1987 hearing and was initially granted time. On the eve of the hearing, Vernon was informed that it would not be allowed to present oral testimony because of limitations imposed on the number of speakers. Vernon stands ready at any time to speak directly to the Subcommittee and, indeed, is very concerned that its position is not being presented by the California panel that was heard orally.

In Edison's supplemental comments (Id.), it accuses Vernon of making a large number of false and misleading statements and claims to respond to "some of these statements." However, Edison does not, in fact, show that anything Vernon stated

was misleading, much less false. Rather, it is Edison that would mislead this Subcommittee. Edison, as reflected most recently in Administrator Jura's October 14 statement at p. 10, has consistently refused to provide firm transmission on the Pacific Intertie to its municipal resale customers, regardless of who has asked. Despite Edison's implications to the contrary, there is no issue about this fact. Vernon has been allowed to purchase certain nonfirm energy using interruptible transmission on Edison-owned transmission facilities but interruption has been, seemingly, at Edison's whim. It is true that, at times, Edison, for its own reasons, has allowed Vernon to take in a considerable amount of nonfirm energy. At other times such energy has been greatly restricted. Such nonfirm transmission arrangements have been contested by Vernon in other fora, and are probably best reserved for those fora except to the extent that Edison insists on making misleading statements here. Vernon has also has been unwilling to enter into the agreements offered by Edison regarding interruptible transmission on the Intertie because Vernon feels that the terms offered are unfair. Judging by the positions taken by Anaheim and Riverside before FERC, those Cities are not fully content with those arrangements either. Edison has consistently taken the position that it will not initiate a service and allow just and reasonable terms for that service to be litigated before FERC as Vernon has proposed, so the bottom line is that Vernon is left without service, including without any service on the Pacific Intertie.

Vernon did not misstate the Administrative Law Judge initial decision in FERC Docket No. E7777 as Edison claims. See Hearing Volume, pp. 716-17. As stated by Vernon previously, there the judge found that the investor-owned utilities had unduly restricted use of the Intertie at least as to Intertie capacity that was going unused. See 26 FERC ¶63,048, at pp. 65,213-15 striking down Intertie owner's rights of first refusal. There the Judge states that, p. 65,213:

> Edison also contends the denial of access must be unreasonable. I find that the denial of access to unused Intertie capacity is unduly anticompetitive, unduly discriminatory, unjust and unreasonable, and contrary to the public interest. It is a waste of a portion of a major economic asset of this country.

Edison simply alleges that it now makes interruptible transmission on the Intertie available to certain of its municipal customers. As noted previously, Vernon considers the terms of that transmission unfair, and has not been able to reach an agreement with Edison for access to that interruptible transmission and Edison refuses to initiate the service subject to an FERC determination of the reasonableness of its terms.

Vernon does not understand Edison's assertion (Hearing Volume, p. 701), that Vernon is "using this hearing to create exhibits for its litigation against Edison in other forums." BPA has asserted, as part of the basis for its Intertie Access Policy, the need to respond to the restrictions imposed by the Southern Intertie owners. The matters discussed in Vernon's written statements go directly to these matters. Certainly, the Subcommittee should hear Vernon's side of the story.

PG&E (Hearing Volume, p. 686) claims that I was incorrect in stating in my May 7, 1987 written statement to this Subcommittee (Hearing Volume, p. 714) that even if the third AC Intertie line is completed the resale municipals' proportional share in total Intertie capacity will be less than that of the California investor-owned utilities.

As shown on the attachment to this letter, Vernon's calculations show that it will receive at best approximately 1.2% of the PG&E share of the Intertie if the Intertie is upgraded to the full potential of 7900 megawatts. This is less than Vernon's percentage share of PG&E's load (as calculated by PG&E) based upon kilowatt hours (1.7%) or kilowatts (1.3%). PG&E alleged that Vernon would receive 1.4%. Apparently, PG&E understated its share of the upgraded Intertie for purposes of the calculation. A more telling statistic in support of Vernon's original statement is that while the Edison resale Cities represent about 7.4% of the Edison control area load, at best they will receive only 5.56% of the Intertie as upgraded, a 25% shortfall.

Even this disproportionately low share is less valuable than shares held by Edison and the other California Companies because:

1. Shares of the third AC line are much more expensive than are shares of the existing lines ($7.00 per kilowatt-month versus approximately $1.00 per kilowatt-month on the original Intertie).

2. Capacity of SMUD, DWR and CVP/WAPA on the original AC lines reverts to the California Companies free of charge when not scheduled full by those three agencies.

3. The California Companies have an undivided interest in the whole of four lines whereas Vernon and the Southern Cities have rights only in one AC line. If the third AC line is not completed to full potential capacity or in the event of any derating or outage of the third AC line will be a much larger adverse effect upon Vernon and the Southern

Cities than on the California Companies. In addition, the DC line in which Vernon and the Southern Cities have no rights is not subject to circulating loop flow which is historically the single largest source of deratings on the Intertie.

4. The California Companies have had their low-priced shares since 1968 whereas the Cities' high-priced share will become available only if the third AC line is completed as contemplated in the early 1990's.

Vernon's participation in the third AC line came at an unduly high cost that could only be imposed as a result of the Southern monopoly. For instance, Vernon was forced to give up its preference to nonfirm energy and will be forced to cut off purchases to make room for the output of certain California hydro plants when those plants are in spill. If Vernon had true control over its participation in the line it would not have had to agree to these restrictions.

Edison claims that Vernon would obtain additional Intertie participation under WSPP, but that program is experimental and short term (two years) and Vernon has not been able to reach agreement with Edison for Vernon participation.

In closing, Vernon, too, believes that a win-win solution can be achieved for Intertie access problems, but that that solution must take the needs of all those affected into account. In this regard, Vernon requests that in the future it be included along with other California utilities in any discussions of the Intertie Access Policy.

Very truly yours,

Bruce V. Malkenhorst

cc: Subcommittee Members

LT IAP 3-80

Attachment to Vernon November 10, 1987
Letter to Chairman Miller

VERNON SHARE OF INTERTIE

The following data is extracted from Electrical World Directory of Electric Utilities for 1986-1987:

Vernon 1985 Peak Demand = 192 megawatts
---------- = 1.333% (PG&E says 1.3%)
PG&E 1985 Peak Demand = 14,403 megawatts

Vernon 1985 energy sales = 1,090,588 MWH
---------- = 1.682% (PG&E says 1.7%)
PG&E 1985 energy sales = 64,822,055 MWH

PG&E states that Vernon's 27 megawatt entitlement is 1.4% of PG&E's "permanent share" which means that PG&E has assumed it would obtain a 1,928.57 megawatts share. My calculation, however, shows that PG&E's lowest permanent share is 2,229.5 megawatts.

PG&E is entitled to 50% of the California Companies' Intertie share. Thus, PG&E has assumed that the California Companies share is:

2 X 1,928.57 = 3,857.14

As shown in the calculation below, the lowest "permanent share" PG&E should have is 2,229.5 megawatts out of the California Companies' 4,459 megawatt share, leaving 602 megawatts unaccounted for. As calculated below, Vernon's share of the ultimate, permanent Intertie (DWR option exercised and no TANC layoff) is 22.5% of 112.752 MW = 25.3692 MW. Thus, Vernon's share is:

25.36
---- = .01138 [redacted] or approximately 1.14% [redacted] of PG&E's permanent share
2,229.5

COMPARISON OF ENTITLEMENTS

With the third A.C. line, the A.C. portion of the Intertie will have a rated capacity of 4,800 megawatts and the D.C. line will have an uprated capacity of 3,100 MW for a total capacity of 7,900 megawatts. This total capacity is the same figure given by PG&E. Hearing Volume, p. 686. The California Companies are entitled to half of the D.C. line's capacity and the following portions of the A.C. lines:

Two existing A.C. Lines

Rated Capacity	3,200 megawatts
LESS:	
DWR	(300)
SMUD (w/o layoffs)	(200)
CVP/WAPA	(400)
California Companies	2,300 megawatts
Vernon & Southern Cities	0 megawatts

Third A.C. Line

With DWR Option exercised in 2005 (No TANC Layoff)

Rated Capacity	1,600 megawatts
California Companies	
Ownership (38.0673%) (¶5.2.2 of MOU as revised by MOU Annex)	609 megawatts
Vernon & Southern Cities	
Ownership (7.047%) (¶5.2.3 of MOU as revised by MOU Annex)	112.75 megawatts

D.C. Line

Rated Capacity	3,100 megawatts
California Companies	1,550 megawatts
Vernon & Southern Cities	0 megawatts

TOTAL PACIFIC INTERTIE	7,900 megawatts	
California Companies		
(After 2005 w/DWR option exercised) (2,300 orig AC + 609 3d AC + 1,550 DC)	4,459 megawatts	(56.443%)
Vernon & Southern Cities		
(After 2005 w/DWR option exercised)	112.75	(1.427%)
Edison Share		
.43 X 4,459	1,917 megawatts	(24.271%)
PG&E Share .50 X 4,459	2,229.5 megawatts	(28.222%)
Vernon & Southern Cities Share/Edison share		
$\frac{112.752}{1,917 + 112.752}$ =		5.56%
Vernon & Southern Cities Load/Edison Load		7.4%

(@ 6,3)
Attachment:
LTIAP-3-80

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May 5, 1987

BY HAND DELIVERY TO 1522 LONGWORTH

Honorable George Miller
U.S. House of Representatives
Washington, D.C. 20515

Re: May 7, 1987 Hearing Before
Subcommittee on Water and Power Resources

Dear Chairman Miller:

Herewith is an original and 50 copies of the written statement of Mr. Bruce V. Malkenhorst, City Administrator, on behalf of the City of Vernon, California.

Vernon respectfully requests that this statement be presented to the Subcommittee and included with the record of the hearing scheduled for May 7, 1987.

Very truly yours,

Channing D. Strother, Jr.

CDS/jat

cc: Members of Subcommittee
Bonneville Power Administration
Washington, D.C. Office

Attachment
203
LTMP 3 x0

STATEMENT OF BRUCE V. MALKENHORST,
CITY ADMINISTRATOR, CITY OF VERNON, CALIFORNIA,
SUBMITTED TO THE UNITED STATES HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON WATER AND POWER RESOURCES,
COMMITTEE ON INTERIOR AND INSULAR AFFAIRS,
IN CONJUNCTION WITH MAY 7, 1987 HEARING

The City of Vernon regrets that limitations imposed on the number of persons scheduled to present testimony at the May 7 hearing preclude my personal appearance before the Subcommittee and submits this written statement in lieu of oral testimony. Vernon respectfully requests that this statement be included with the record of the hearing and be considered by the Subcommittee in its oversight of the Bonneville Power Administration and Pacific Intertie matters. Vernon would gladly respond to any questions the Subcommittee or other members of Congress may have.

I. Introduction

My name is Bruce V. Malkenhorst and I am the City Administrator of the City of Vernon, California. In this capacity I am chief executive officer of Vernon's municipal electric utility operations and am responsible for power supply acquisition, wholesale rates and related contracts and litigation. I have also been responsible for Vernon's attempts to deal with the Bonneville Power Administration, which have thus far proved to be unsuccessful.

Vernon is one of the California municipal utility systems which has been excluded from firm access to the Pacific Intertie. The principal concern that Vernon brings before this committee is that access to both ends of the Pacific Intertie should

be opened up in order to develop an efficient market for Northwest-Southwest power transactions.

I will also address a less urgent, but still vital concern which is the undue procedural obstacles that Vernon and others have faced in bringing fundamental issues before BPA.

In addition, Vernon supports the goals and proposed solutions previously submitted by the California utilities but believes that the solutions should be expanded to encompass the matters discussed in this statement. An efficient Northwest-Southwest market, repayment of the Treasury and the enhancement of mutual benefits between the Northwest and Southwest are to the ultimate public benefit and should be the goals of every participant before this subcommittee. BPA's pricing policies in particular have been an obstacle to these goals. This subcommittee in its oversight of BPA should reaffirm that rates for sales of federal generation outside the Northwest region and for Intertie transmission generally should be cost-based. Unless they are cost-based, other firmly established federal policies, not the least of which is public body preference, are threatened.

II. Description of Vernon

Vernon is a municipal resale customer of Southern California Edison Company. It has an annual peak of approximately 192 megawatts and annual sales of about one million megawatt-hours. While Vernon has relatively few residential customers, commercial and industrial businesses served by Vernon employ some fifty-five thousand persons and constitute an important part of

the local economy located in east Los Angeles, southwest Los Angeles and the Cities of Huntington Park, Maywood and Bell.

In the early 1930's Vernon established its municipal distribution system. At that time Vernon generated its customers' full electric needs. Later Vernon entered into agreements with Edison for power supply and until the early 1980's Vernon was a full requirements resale customer of Edison. However, since that time Vernon has developed other sources of supply, including its own generation and purchases from other utilities including agencies of the state of California and federal governments, but not BPA.

Edison controls and operates all of the transmission facilities necessary for Vernon to secure bulk power from sources other than Edison and many disputes have arisen between Vernon and Edison concerning transmission and proper rate treatment for Vernon's purchases from other sources. These disputes are presently pending before the FERC and other fora.

Vernon presently has no access to the Pacific Intertie, which is the sole feasible transmission to Northwest power resources, although Vernon has been actively seeking such access for many years. Vernon does have a potential ownership interest in the California Oregon Transmission Project third AC Intertie line which is presently proposed. As a part of the negotiations for participation in this proposed line, Vernon and other public body participants were pressured into accepting less than their full share of power available under their preference rights to federally generated power.

III. Efforts by Vernon and others to obtain access to the Pacific Intertie and relevance to the issues before this Subcommittee.

A fundamental basis asserted by BPA in support of its Intertie Access Policy is that it and other Northwest sellers face a monopsony market in the Southwest resulting from restrictions imposed by the owners of the Southern portion of the Intertie. BPA Administrator Records of Decision (September 1984) at pp. 39-41 and (May 5, 1985) at pp. 5-8. BPA is correct that it faces a monopsony market in the Southwest. The other side of the coin is that Vernon and others have been excluded from access to the only feasible transmission path to and from the Northwest by the same utilities that dominate the monopsony market BPA faces. This exclusion is a fundamental problem which by its nature creates economic dislocations and inefficiencies. This fundamental inequity must be recognized by Congress in its oversight of BPA and the Intertie. It is Vernon's position that only the removal of anticompetitive restrictions at both ends of the Intertie will address the underlying problems in the Northwest/Southwest market.

Edison refuses to provide firm access to its share of the existing Intertie lines to any of its municipal resale customers and has provided nonfirm access only when conditions are such that Edison is not fully utilizing that transmission and it is of relatively low value. Edison has admitted, for instance, that virtually no transmission service on the Intertie was available to its resale cities in the years 1982-1984, which were high Northwest surplus years.

Edison has also denied access to any portion of the DC line upgrades. A DC line share would be very valuable to Vernon because that line runs from North to South without intervening terminals. Moreover, the Southern terminal is located near to Vernon. The capacity of the Intertie has been upgraded many times over the years, but Vernon has never been offered participation by the Southern owners and were permitted participation in the third AC line only after intervention by Congress.

Although a large portion of the California market receives electric power transmitted over the Intertie, access to the southern portion of the Intertie is dominated by three California investor-owned utilities, including Edison. Vernon and others remain without Intertie access at a time when major long term Northwest/Southwest power contracts are expiring and new contracts are being negotiated. Moreover, even if the third AC line is completed, the share of the Intertie of the resale municipalities will not be in a proportion to their loads in comparison to the investor-owned utilities.

The southern portion of the Intertie is not a competitive market. As referenced by the Records of Decisions, the investor-owned utilities by agreement offer among themselves to divide their Intertie usage and Northwest purchases on a strict 50-43-7 ratio and have given each other a right of first refusal over any capacity not utilized by the others. They also have rights to the unused portions of certain public agency capacity which they divide on the same ratio. In contrast, while BPA's Intertie Access Policy divides the sales market into fixed shares,

at least all Northwest utilities are eligible to participate.

It should be noted that the 50-43-7 ratio was based upon the relative loads of the three utilities when the intertie was first constructed. Edison thus justifies its share of the Intertie based in part on Vernon's load which Edison uses at its own discretion and from which Vernon receives no benefits to the extent Vernon purchases from sources other than Edison. To be a participant in the California market for Northwest power Vernon needs a firm Intertie share.

Vernon was not offered participation in the Intertie when it was first developed and would have been prevented from participating therein by its full requirements contract with Edison. Moreover, Edison and the other investor-owned utilities have alleged that BPA itself sought to exclude utilities that did not have their own resources from participation in the Intertie. Regardless of the truth or falsity of that allegation, Vernon has its own resources now and BPA obviously does not now oppose Vernon's participation in the Intertie. It should also be noted that the Intertie as originally proposed by the federal government would have been operated as a common carrier open to all southwest utilities. The investor-owned utilities collectively opposed that line and were able to substitute the Intertie scheme eventually adopted for it, which provides great barriers to later participation by interested parties.

Vernon and others have taken a number of steps to try to obtain Intertie access. Vernon has filed and is prosecuting an antitrust law suit against Edison in the Central District of

California. Case No. CV83-8137-MRP (Mcx) (filed December 15, 1983). In that proceeding, among other things, Vernon seeks transmission access to the Intertie and damages for foreclosure from Intertie access. The proceeding is presently in a discovery phase. The Cities of Anaheim, Riverside, Colton, Banning and Azusa, all of which are Edison resale customers, brought a suit similar to Vernon's suit before the same court a primary count of which is foreclosure from the Pacific Intertie. Case No. CV78-0810-MRP (Mcx). That proceeding is now pending before the district judge for decision after a trial which concluded in September 1986.

A similar proceeding brought by both Northern and Southern California municipalities before the FERC involves challenges to the monopoly the California investor-owned utilities have over control of the Intertie due to the contracts governing Intertie usage and the collective and individual actions of those utilities. Pacific Gas and Electric Company, Docket No. E-7777-000. That proceeding is now pending before the full Commission on exceptions to the decision of the Administrative Law Judge. 26 FERC ¶63,048 (February 10, 1984). There the FERC staff took the position in that proceeding that the Southern portion of the Intertie was monopolized, contrary to the public interest, by a few utilities to the foreclosure of, among other entities, the southern municipalities like Vernon. Consistent with Edison's positions in the Central District antitrust suits, the investor-owned utilities, including Edison, took positions to the effect that, among other things, FERC did not have the authority to grant the relief

requested and that both Congress and BPA had endorsed the restrictions imposed on use of the Intertie. Those companies do not deny that Vernon and others were excluded from firm access to the Intertie. The Administrative Law Judge's decision, while finding that the investor-owned utilities had in fact unduly restricted use of the Intertie by the municipalities at least as to Intertie capacity that was going unused, essentially accepted the argument that utilities such as Vernon were excluded from the Intertie in part as a result of certain BPA concerns about sales to Southwest municipalities without generation.

Eventually Vernon may (or may not) obtain some access to the Intertie as a result of the Central District cases or the FERC proceeding. Vernon does not appear before this committee to litigate or relitigate those proceedings. However, these proceedings clearly demonstrate that entities such as Vernon are being deprived of firm access to Northwest power sources just as BPA said in support of its access policy.

In this regard, Vernon and other resale municipalities are on the outside looking in at two monopolies--one in the Northwest and one in the Southwest. BPA as a result of attempting to fight a monopoly with a monopoly is apparently spilling water that could be used to generate power for sale to Vernon if Vernon only had transmission access to that power. This is obviously contrary to the public interest. However, BPA, because it is a federal agency concerned with regulating and allocating scarce federal power resources should and must consider the public interest standards contained in the antitrust laws. Congress in its oversight

of BPA should encourage BPA to utilize its market power to force the removal of market restrictions in the Southwest.

From its earliest comments on Intertie Access Policy proposals, Vernon's position has been consistent: BPA should utilize all the means in its power to force the California entities which restrict access to the Intertie to provide transmission to municipalities such as Vernon which are presently without access. In this way BPA would enhance the public body preference and encourage the widest spread use of federally generated power. This is consistent with BPA's enabling statutes and would ensure that the price BPA obtains for its own power is not held artifically low due to anticompetitive restrictions in the sales market.

BPA itself has suggested that it would exchange a less restrictive access policy for access to Southwestern municipalities. At the January 28, 1986 meeting on Intertie Access for Extra Regional Resources, BPA's Deputy Power Manager recognized that some municipals in California (such as Vernon) are without transmission to the Northwest and suggested that BPA might consider allowing Intertie access to Canadian power if companies such as PG&E (and Edison) would allow "free flowing transmission throughout the West." BPA Meeting Notes at page 3. Similarly in the undated document entitled "Proposed Long Term Intertie Access Policy Issues" distributed by BPA with the proposed Long Term Access Policy, on page 3, BPA suggested that in return for BPA's providing access to a Northwest utility for a seasonal or capacity/energy exchange, "the California utility could provide BPA

with transmission access to a Southwest utility that has no Intertie ownership for a power sale." Apparently the California investor-owned utilities have not taken BPA up on these offers.

Vernon still believes that BPA should insist on not doing business with the monopolists which keep Vernon off the Intertie. However, instead of proceeding in a manner that would open up its power sales to an open market BPA has decided to fight a monopoly with a monopoly, in the meantime seeking a price that is not competitive with other suppliers.

There is no question that this short-sighted approach by BPA will in the end contribute to an inefficient market between the Northwest and Southwest and will, in the long run, inhibit BPA's ability to repay the Treasury. Moreover, BPA's artifically high prices in the Northwest will without question inhibit additional interregional transmission facilities. Although the Northwest is a unique market due to the large amount of hydroelectric resources, even it can be priced out of the market.

Vernon would encourage the members of this Subcommittee to suggest to BPA and the Southern Intertie owners, which are appearing before them seeking relief from BPA policies, that they exchange entitlements in the Intertie so that BPA would control a portion of the Intertie lines from beginning to end and California entities would control a portion of the lines from beginning to end. In this matter, California would be guaranteed of at least some access to Northwest without BPA's restrictions and BPA would be guaranteed of some direct access to all of California without the restrictions imposed by the present Southern Intertie owners.

Such reciprocal access would immediately benefit the public interest through the increase in unrestricted competition. The split in ownership of the lines at the Nevada-California and Oregon-California borders is artificial and thwarts open access by its very nature.

Vernon would also welcome a greater scope of review of BPA actions by FERC, particularly antitrust review and review of public body preference issues. The public interest would be much benefitted by greater review of BPA actions by a disinterested--but expert--body such as FERC. Vernon would welcome greater and more expeditious FERC antitrust review of all electric utility matters and greater authority on FERC's part to order wheeling as a remedy. Clearly, BPA's anticompetitive actions could not be reviewed apart from the California entities restrictions on Intertie use.

Greater review on FERC's part would also encourage BPA to fully address the actions it takes. For instance, it seems impossible for FERC to adequately review rates and BPA's ability to repay the Treasury apart from the issues raised by Vernon as to whether entire BPA programs comport with the public body preference.

IV. BPA should reform its procedures.

Vernon's most immediate problem in regard to obtaining Northwest power has been obtaining access to the Pacific Intertie from Edison and the other Southwest owners. However, in support of this effort Vernon has also been participating in a number of

BPA proceedings and entered into numerous discussions with BPA in an attempt to enlist BPA's assistance in penetrating the Intertie bottleneck in California.

Vernon would consider BPA's interests to coincide with the positions stated by Vernon. BPA has, of course, vehemently complained about the exclusion of utilities such as Vernon from the Intertie. Moreover, the preference for public bodies is a fundamental policy for all federal power marketing and that policy is preserved in all of the legislation governing BPA. However, BPA has done little to assist Vernon. It has, until just recently, refused to contract for power with Vernon until Vernon obtains transmission access, has avoided addressing Vernon's preference rights (even though Vernon has presented BPA with extensive testimony, legal briefs and formal comments), and has put procedural obstacles in Vernon's path when Vernon has attempted to assert these rights.

Vernon's specific complaints about BPA procedures include the following:

- BPA proceedings are often conducted on exceedingly fast timetables that must be difficult for in region utilities to proceed within and are nearly impossible for out-of-region utilities such as Vernon.
- BPA conducts simultaneous, overlapping proceedings involving the same programs, which have the effect of inhibiting public participation on some issues and thwart resolution of those issues in a reasoned manner.
- BPA in other ways often avoids addressing issues raised by parties which creates unnecessary uncertainty about programs.

On June 9, 1986, Vernon received a letter from BPA noting that Vernon had no access to firm transmission to the North-

west and stating that "BPA will not make an allocation of surplus power today for long term contracts to any potential purchaser whose rights to firm transmission may attach some time in the future." Since that time Vernon has entered into an "umbrella agreement" with BPA that itself provides for no power sales and reserves no power for Vernon but would provide for some terms and conditions of a BPA power sale to Vernon if Vernon obtains transmission. Just recently BPA has expressed a willingness to negotiate a firm sales contract even though Vernon does not yet have transmission. In sum, Vernon still does not know from BPA whether Vernon will be able to obtain federally generated preference power from BPA when Vernon obtains transmission.

Vernon's experiences are not unique. BPA should reform its procedures and straightforwardly address the issues brought before it. Vernon and other parties expend considerable resources in order to present positions to BPA so that the best approach to the issues BPA faces can be determined. BPA should not duck those issues and Congress, in its oversight of BPA, should ensure that it does not.

V. Conclusion

This subcommittee in its oversight of BPA should encourage BPA to open the power market between the Northwest and Southwest, not put further restrictions on that market. However, BPA should be encouraged to utilize its market power to insist that the Southern Intertie owners also open up Intertie access to those such as Vernon who have been denied access. Those California In-

tertie owners which are before this subcommittee seeking relief from certain BPA policies should likewise be willing to open up access to the Southern Intertie to obtain that relief. Additional FERC review of BPA actions and competitive matters generally is also in order.

Vernon also suggests that this Subcommittee scrutinize BPA's procedures and encourage BPA to utilize procedures reasonable calculated to encourage the participation of all interested parties and to straightforwardly address issues brought before it.

Vernon is grateful for the opportunity to present this statement to the Subcommittee.

(3 of 3)
Attachment
LTIAP. 3-80

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May 21, 1987

BY HAND DELIVERY TO 1522 LONGWORTH

Honorable George Miller
U.S. House of Representatives
Washington, DC 20515

Re: May 7, 1987 Hearing Before Subcommittee on Water and Power Resources

Dear Chairman Miller:

Pursuant to your request at the close of the May 7, 1987 hearing, herewith are an original and four copies of the written supplemental and responsive statement of Mr. Bruce V. Malkenhorst, City Administrator on behalf of the City of Vernon, California.

Vernon respectfully requests that this statement be presented to the Subcommittee and included with the record of the May 7, 1987 hearing.

Very truly yours,

Channing D. Strother, Jr.

CDS/cp

Enclosures

cc: Members of the Subcommittee
Bonneville Power Administration

SUPPLEMENTAL AND RESPONSIVE STATEMENT OF BRUCE V. MALKENHORST, CITY ADMINISTRATOR, CITY OF VERNON, CALIFORNIA, SUBMITTED TO THE UNITED STATES HOUSE OF REPRESENTATIVES SUBCOMMITTEE ON WATER AND POWER RESOURCES, COMMITTEE ON INTERIOR AND INSULAR AFFAIRS, IN CONJUNCTION WITH MAY 7, 1987 HEARING

Pursuant to Chairman Miller's request at the close of the May 7, 1987 hearing for supplemental and responsive statements, the City of Vernon, California submits this statement of Mr. Bruce V. Malkenhorst, City Administrator, for consideration by the Subcommittee and inclusion with the record of the May 7, 1987 hearing.

I. Exclusion of Vernon Representative from Schedule of Speakers

Vernon duly requested time to present a speaker to the Subcommittee at the May 6, 1987 and was initially granted time. Virtually on the eve of hearing, Vernon was informed that it and others would not be allowed to present oral testimony because of limitations imposed on the number of speakers.

Most of those on the California panel at the hearing testified in support of essentially the same positions. While Vernon supports many of those positions, other matters addressed in Vernon's previous written statement, on which Vernon is in substantial disagreement with at least some other California parties, were not addressed by the California speakers except, to some extent, in response to questions. Vernon takes seriously Chairman Miller's admonition that "voices not raised will not be heard." Vernon is concerned that, without the ability to speak

directly to the Subcommittee, it will not be able to communicate as effectively to the Subcommittee as those allowed to speak and will not have the same public exposure of its views as afforded those who spoke at the hearing. For instance, the trade press seems to have initially covered only the remarks of those who actually spoke at the hearing. The issues raised by Vernon go to the fundamental basis asserted by BPA for the Intertie Access Policy and the heart of the way the Pacific Intertie is operated.

For that reason, Vernon asks that the written statements presented by Vernon receive careful attention and that Vernon be granted the opportunity to have its representatives appear personally before the Subcommittee in any future hearings concerning the Pacific Intertie, the Intertie Access Policy or BPA generally.

II. Third AC Line As Opening Access To Southwest Markets

The California Intertie owners and their state agency supporters in testimony to the Subcommittee pointed to the proposed third AC line as alleviating the exclusion of utilities such as Vernon from access to the Intertie. This is a weak reed indeed for those parties to rest upon.

Those California parties have come before this Subcommittee alleging great urgency and asserting that if immediate actions are not taken to alter BPA administration of the Intertie that there will be irrevocable damage to the public interest now and into the future. The solutions they seek, however, will not benefit Vernon's customers today. Those solutions have only the

potential of benefiting Vernon's customers sometime in the future. The third AC line cannot possibly be completed until the mid-1990s and it will not necessarily be completed at all. The California PUC staff has rejected the applications of the three California investor-owned utilities seeking participation in that line and the utilities themselves have questioned its viability.

Moreover, as this Subcommittee may recall in connection with previous Congressional activities, the California municipalities had to give up certain preference rights to obtain even potential access to the third AC line.

Truly effective access to the Pacific Intertie would come only through access to the existing lines or to the DC upgrades. Vernon would look with favor on an offer to Vernon by the California owners to trade Vernon's future access to the third AC line for present access to the existing Intertie lines or even the DC upgrade. Without such access, access to the California portion of the Intertie is as closed as it has always been.

Those that came before this Subcommittee seeking to have their problems addressed at present should reciprocate at present. If the Southern Intertie owners desire relief from the access restrictions Intertie Access Policy, they should at the same time be willing to provide access themselves--now, not at some indeterminate time in the future. The third AC line is far from a sure thing under any conditions and should not be interpreted as alleviating the restrictions on Southern Intertie access.

III. Western Systems Power Pool

The California panel referred to the Western Systems Power Pool (WSPP) as providing additional Intertie access. The Subcommittee should not be mislead. The WSPP provides for only voluntary transactions and transmission thereunder is by its nature nonfirm. The have-not municipalities have no more access to transmission on the Intertie than they had before--which for Vernon is not access at all, not even to nonfirm transmission. WSPP is a non-issue in regard to additional transmission for have-not municipalities.

IV. California Owners Assertions That They Are Entitled To Exclude Others From Intertie Access Because Of Their Ownership Of The Southern Lines

Without a transcript of the hearing it is impossible to capture the full flavor of the California investor-owned utilities remarks in this regard, but essentially they said that because they built the Intertie with their money they would continue to utilize it as they saw fit and that that use would continue the exclusion of the have-not municipalities. These are arrogant and unbecoming words from utilities that by their own admission vigorously fought Federal common carrier lines and fought Intertie access for then non-generating municipal utilities. California owners have asked that this Subcommittee consider historical differences between the Northern and California Intertie. The California owners efforts to limit Southern access are a part of the history that should be considered.

The California owners have never offered firm Intertie

access to Vernon or the other have-not municipalities on the existing lines on any terms. Exclusion is not, then, simply a matter of a fair return on their risk of investment--it is an intent to restrict access and foreclose competition. These same utilities have repeatedly asserted that Congress gave its blessing to their monopolistic and exclusionary actions. Vernon does not believe that a true view of Congressional intent can necessarily be revealed as a result of this type of oversight hearing, but Vernon requests that the Subcommittee members ensure that these California utilities cannot rely on the record of this proceeding to assert that this Congress supports the view that because the California Intertie owners prevailed in the past in their efforts to limit Intertie access, they are entitled to keep access so limited.

Vernon generally supports Chairman Imbrecht of the California Energy Commission's testimony that BPA's division of the Intertie into monopolies would be a clear violation of the Sherman Act if BPA was not a federal agency. But the California Intertie owners, who are without a doubt subject to the Sherman Act, themselves also effect such a division.

President Hulett of the California Public Utilities Commission referred to Section 2(b) of the Bonneville Project which provides that the BPA administrator use his autority over transmission "[i]n order to encourage the widest possible use of all electric energy that can be generated and marketed and to provide reasonable outlets therefor, and to prevent the monopolization thereof by limited groups. . . ." Vernon does not agree

with BPA's attempt to utilize the Intertie Access Policy to drive up Northwest rates, but to the extent that BPA utilizes its control over the Northern Intertie to halt the "monopolization" of the Southern portion of the Intertie by "limited groups" and to provide "reasonable outlets" for Northwest power, Section 2(b) supports BPA's actions. The Bonneville Project Act clearly envisions efforts by BPA to avoid selling to a monopolized market and its efforts to market power in a widespread, not limited, market.

V. BPA 80 Per Cent Intertie Ownership

The California panel at several points referred to BPA's 80 per cent ownership of the Northern Intertie. This is a meaningless figure. BPA grants access to all Northwest utilities that seek access. Vernon would not be here complaining if the California Intertie owners granted similar access.

VI. Conclusion

Much was said at the hearing about there being much middle ground on which BPA and the California parties could meet. Vernon fervently hopes that the result of these proceedings will not simply be a few adjustments to the Intertie Access Policy whereby California utilities pay somewhat more for Northwest power than they would without the policy, while have-not utilities such as Vernon remain excluded from Intertie access. Vernon seeks this Subcommittee's assistance in furthering true open access at both ends of the Intertie.

Vernon appreciates the opportunity to present these views and stands ready to answer any questions the Subcommittee may have.

NIU
Northwest Irrigation Utilities

(503) 233-5823
500 N.E. Multnomah, Suite 354 • Portland, Oregon 97232

January 28, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-81
RECEIPT DATE:
FEB 01 1988
AREA: DISTRICT
L (CP)
CC: AL 15

Mr. James J. Jura
Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

Dear Jim,

As a utility association that represents the interests of Pacific Northwest Irrigators, we are interested in policies and programs which have any impact on your revenues, thereby creating impacts on our wholesale power rates. One such BPA policy under development is the Intertie Access Policy.

Although we recognize the needs of those requesting third party access to the intertie, we have a greater need to maintain the financial strength of our sole power supplier, BPA. We believe it is essential that BPA maximize its revenues by retaining its competitive advantage to southwest markets. Additionally, we believe BPA will be worse off financially with the present draft Intertie Access Policy and that it should be revised to retain intertie control by BPA.

BPA has the right for a "federal first" intertie policy for its extra-regional firm and nonfirm sales and has a responsibility to its full requirements customers to maximize revenues from these sales. A limited use by third parties may be appropriate if and when the third A.C. line is completed, but not before.

Thank you for your consideration. I urge you to carefully consider these comments in the development of the final policy.

Sincerely,

Bruce J. Lovelin

Bruce J. Lovelin
Executive Director

cc: NW Congressional Delegation
NIU Member Utilities
Tom Trulove, NW Power Planning Council
Tom Wagenhoffer, BPA Snake River Area
John Cameron, BPA LTIAP Manager
Ray Foleen, Non Generating Public Utilities
Mark Glaess, Oregon Rural Electric Cooperative Asssociation

Direct Service Industries, Inc.

[illegible] LLOYD CENTER TOWER [illegible] SW MULTNOMAH STREET [illegible] PORTLAND, OREGON 97232 (503) [illegible]

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LIAP 3-82
DATE:
FEB 01 1988
AREA: DISTRICT
All
CC: AL-13

January 26, 1988

Donna L. Geiger
Public Involvement Manager
Bonneville Power Administrator
P. O. Box 12999
Portland, Oregon 97212

RE: Comments of the Direct Service Industries on BPA's Revised Draft Long-Term Intertie Access Policy

Dear Ms. Geiger:

The Direct Service Industrial Customers ("DSIs") of the the Bonneville Power Administration ("BPA") that are members of Direct Service Industries, Inc. submit the following comments on BPA's Revised Draft Long-Term Intertie Access Policy ("IAP"). The DSIs believe the December 15, 1987 draft of the IAP contains significant improvements over the October 1986 draft. However, in the interests of equitable treatment of all BPA customers and fulfillment of its statutory obligations, further changes are warranted.

The DSIs are primarily concerned with the proposed mitigation measures for both Assured Delivery and for the proposed Formula Allocation of intertie capacity under Conditions 1 and 2, because they provide inadequate protection to BPA and its customers. The mitigation measures for Assured Delivery and the Formula Allocation should require complete mitigation for lost BPA sales. BPA should not make intertie capacity available for non-Federal sales when to do so would foreclose a BPA sale unless BPA is fully compensated for the lost sale.

The DSIs propose the following revisions and additions to the Revised Draft IAP to assure complete mitigation:

1. Section 1(10) should be revised:

> "Mitigation" refers to conditions, including financial and operational conditions, which BPA shall require of Scheduling Utilities in return for an Assured Delivery contract and for a Formula Allocation of intertie capacity. The purpose of mitigation is to offset completely the impacts on BPA which are attributable to permitting non-Federal utilities to use the Federal portion of the intertie.

Discussion. With respect to operational considerations, the DSIs are particularly concerned that assured access not adversely impact BPA's ability to provide an acceptable quality of service to DSI top quartile loads while retaining the capability to integrate economic new resources for the benefit of all regional consumers. We have previously written BPA about these concerns and understand it is BPA's intent to resolve them prior to adopting the final IAP.

2. Section 4(d)(4) should be revised to include an introductory paragraph:

> (4) Mitigation Required for Assured Delivery Contracts.
>
> As mitigation for granting Assured Delivery for non-Federal sales over the intertie, non-Federal utilities will be surcharged annually on a dollar per kilowatt of Assured Delivery basis under its contract with BPA a charge sufficient to hold BPA and its customers harmless. As an alternative to this charge, either in whole or in part, the utility and BPA may negotiate and include in the Assured Delivery contract other mitigation measures, including the mitigation measures listed below in paragraphs (A) and (B); but in total the mitigation measures and the reduced surcharge, if any, must fully mitigate the harm to BPA.
>
> Although designed to provide complete mitigation and no more, if the mitigation measures for Assured Delivery should make BPA more than whole, then this excess would partially offset BPA losses under Formula Allocations.

3. A new sentence should be added to Section 5(c)(2):

> During Condition 2, whenever the Southwest market at BPA's applicable rate is less than the available Intertie capacity, BPA will allocate no more capacity than that market amount.

4. A new Section 5(e) should be added:

> 5(e) Mitigation Required for Formula Allocation.
>
> Non-Federal sales under a Formula Allocation of intertie capacity will result in lost Federal sales in many circumstances. As mitigation for this loss, a surcharge on a dollar per kilowatt of Formula Allocation basis shall be charged annually to each non-Federal utility receiving a Formula Allocation. This charge will be sufficient to ensure that BPA is completely mitigated for these losses. As an alternative to this charge, either in whole or in part, the utility and BPA may negotiate other mitigation measures including the mitigation measures incorporated in Section 5(c); but in total the mitigation measures and reduced surcharge, if any, must fully mitigate any harm to BPA.

Statutory Requirements

Together, four statutes require BPA to give itself priority in any allocation of intertie access between BPA and non-Federal utilities and to allocate any capacity in excess of Federal needs fairly and without discrimination:

* Section 2(b) of the Bonneville Project Act ("Project Act"), 16 U.S.C. § 832a(b);

* Section 6 of the Regional Preference Act ("Preference Act"), 16 U.S.C. § 837e;

* Section 6 of the Federal Columbia River Transmission System Act ("Transmission Act"), 16 U.S.C. § 838d; and

* Section 9(i) of the Pacific Northwest Electric Power Planning and Conservation Act ("Regional Act"), 16 U.S.C. § 839f(i).

Section 2(b) of the Project Act authorizes the Administrator to "construct, operate, maintain and improve such electric transmission lines . . . as he finds necessary . . . for the purpose of transmitting electric energy, available for sale, from the Bonneville project . . . ." The Ninth Circuit has determined that this section authorizes BPA to operate the Intertie "for transmitting federal energy. The Act makes no reference to sharing these facilities with other electricity producers." Dept. of Water & Power of the City of Los Angeles v. BPA, 759 F.2d 684, 691 (9th Cir. 1985) (emphasis added).

Section 6 of the Preference Act provides that "any capacity in Federal transmission lines . . . which is not required for the transmission of Federal energy . . . shall be made available" to others. Federal transmission needs include both current and reasonably foreseeable transmission needs. Thus, "BPA is permitted to reserve sufficient Intertie capacity not only for its current needs but also for 'foreseeable' future needs." Id. at 692.

The Court in City of Los Angeles was addressing BPA's allocation of intertie access for transmission of nonfirm power, after transmission needs for Federal surplus firm power and non-Federal firm transmission contracts had been satisfied. Id. at 689. Thus, Federal needs include transmission of both firm and nonfirm Federal power.

Section 6 of the Transmission Act confirms that only capacity in excess of Federal needs must be made available for non-Federal power. "The Act recognizes . . . that BPA must make available [to non-Federal users] only excess capacity, not all

Intertie capacity." Id. at 692. Section 6 further provides that BPA should make the intertie available to others "on a firm and non-discriminatory basis" once its own needs are satisfied.

Finally, Section 9(i)(1)(B) of the Regional Act provides that BPA "shall, to the extent practicable, . . . assist in the disposal of, any electric power [such utility] proposes to sell . . . if such disposition is not in conflict with the Administrator's other marketing obligations and the policies of this Act . . . ." See also, Section 9(i)(3). This provision explicitly limits BPA to "providing transmission services over the Intertie which 'are not in conflict with [BPA's] other marketing obligations.'" Id.

In City of Los Angeles, the Court was asked to consider BPA's obligation to market its power to assure timely repayment to the U.S. Treasury. The Court found that BPA "is required to market federal power in a manner which ensures that the agency is self-supporting." Id. at 695. Transmission priority should be exercised by BPA "as necessary to meet its statutory mandate of being self-financing." Id. at 692.

The obligation to market its power in a manner which ensures that BPA is self-financing does not necessarily require an allocation of intertie capacity that provides for complete mitigation for any lost BPA sales. There is no statutory obligation to maximize extraregional revenues. An allocation which merely ensures that BPA "could satisfy its revenue obligations" would be consistent with this marketing obligation. Cal. Energy Res. Cons. & Dev. v. BPA, 831 F.2d 1467, 1476 (9th Cir. 1987). This allocation assumes that lost sales would not prevent BPA from making timely repayments to the U. S. Treasury because the lost revenues would be made up through higher rates to BPA's other customers. However, because BPA's customers may be unable to pay higher rates in some circumstances, a Formula Allocation that fails to preclude lost Federal sales or to require mitigation increases the risk that BPA will be unable to meet its repayment obligation.

BPA, however, has a further marketing obligation: BPA must market its power "at the lowest possible rates consistent with sound business principles." Section 9 of the Transmission Act, incorporated by Section 7(a)(1) of the Regional Act. Failure to reserve sufficient intertie capacity to transmit all Federal power will result in lost Federal sales and associated revenues. Because a relatively high proportion of BPA's costs are fixed, the revenues that would be lost must be recovered through higher rates to BPA's customers. A Formula Allocation which does not preclude lost Federal sales or, alternatively, does not require mitigation for lost Federal sales violates BPA's obligation to its customers, including the DSIs, to sell power at the lowest

possible rates. Thus, under this marketing obligation, BPA is constrained to allocate intertie capacity in a manner that precludes lost Federal sales or ensures complete mitigation for lost sales.

Implementation

BPA seems to recognize the above statutory obligations, but fails to comply with them completely. As to Assured Delivery, BPA recognizes that "BPA often has power available to load the Intertie fully. Assured Delivery granted under these circumstances would reduce BPA's revenues" due to lost BPA sales. Explanation of BPA's Revised Draft Long-Term Intertie Access Policy, p. 4. Without any mitigation, BPA's estimated harm ranges from $208 million to $352 million over the 1989-2006 period. This amount equals a $15 million to $26 million per year loss to BPA and its customers. Thus, absent any mitigation for the 800 MW of Assured Delivery, BPA's granting intertie access to non-Federal users would result in an annual cost of $19 to $33 per kilowatt of Assured Delivery. This shortfall would be collected, not from the beneficiaries of this intertie access, but from BPA's other customers.

Acting on this concern, BPA requires that two mitigation measures (or alternative measures that may be negotiated) be included in every contract for Assured Delivery. First, when Assured Delivery sales or exchanges are made during Condition 1, the utility must reduce its Formula Allocation amount by its Assured Delivery amount. If the utility's Assured Delivery amount exceeds its Formula Allocation amount, then the utility must purchase energy from BPA in the amount of this difference. This measure provides some protection to BPA and its customers against lost BPA nonfirm sales due to non-Federal firm sales or exchanges. Id. at 4-5. Second, all return energy under seasonal exchanges must be delivered to interconnection points at the Oregon/California or Oregon/Nevada border and during Conditions 1 and 2, any "cash-out" provisions become inoperative. This mitigation measure to some extent may enhance BPA's nonfirm energy markets and, thus, protect against lost BPA sales. Based on the foregoing analysis of BPA's statutory obligations, the DSIs believe that such mitigation measures as a condition of Assured Delivery are required by the law. However, these two measures are not adequate. Even with these mitigation measures, BPA still estimates its harm at $178 million to $289 million. This amount equals a $13 million to $21 million per year loss to BPA and its customers. Even with these mitigation measures, BPA would be granting 800 MW of Assured Delivery to non-Federal users without compensation for the annual cost to BPA and its customers of $16 to $26 per kilowatt of Assured Delivery. BPA should adopt

measures which provide complete mitigation and keep BPA and its customers whole.

BPA's Formula Allocation should also contain appropriate mitigation measures. The statutory analysis does not distinguish between firm and nonfirm Federal sales: To offer the lowest possible rates to its customers, BPA must allocate to itself sufficient intertie capacity for all current and foreseeable transmission needs for both firm and nonfirm Federal power. In Conditions 1 and 2, the Formula Allocation produces almost a certainty of foregone sales of Federal nonfirm power. BPA recognizes that it "must be especially concerned with protecting its own sales, because sales foregone during spill conditions cannot be stored or made later." Id. at 7. BPA has responded, but only in part, to this concern for lost Federal sales. Specifically, the 1986 draft IAP Formula Allocation allocated to the intertie capacity in Condition 1. In its Revised Draft IAP, BPA concluded that it "would lose approximately $16.4 million in 1989 [alone] by allocating to the Intertie rather than the [Pacific Southwest] market." Id. at 8. This loss has been updated by BPA to $19.5 million. BPA sought to mitigate this loss in the Revised Draft IAP which, in Condition 1, allocates to the smaller of the market or the intertie.

The DSIs support this revision of the Formula Allocation. But it does not go far enough;1/ it reduces the harm to BPA but does not eliminate it. The DSIs estimate that BPA could suffer $50 million per year in lost nonfirm sales under the Formula Allocation. Unless additional mitigation measures are included, BPA's rates to its customers, including the DSIs, will not be as low as possible, as required by law. The Condition 2 allocation, like Condition 1, should be based on the smaller of the Pacific Southwest market or the intertie. Appropriate surcharges or other mitigation measures, to complete the mitigation to BPA for lost Federal nonfirm sales due to a Formula Allocation for non-Federal nonfirm sales, should be imposed.

In summary, complete mitigation measures for Assured Delivery should be adopted. Further, BPA's Formula Allocation

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1/ Allocation to the market returns the Formula Allocation under Condition 1 to the current implementation in the Exportable Agreement. But BPA should not simply renew the conditions of the Exportable Agreement. Circumstances have changed since this Agreement was negotiated, which should be reflected in the new policy. BPA recognizes this, in part, in proposing the hydro cap, which was not part of the Exportable Agreement.

should not allocate any intertie capacity for non-Federal sales which could be foreseeably used to make additional Federal sales, without compensation for lost BPA sales. Complete mitigation measures for Formula Allocation should be adopted. The revisions proposed by the DSIs are appropriate to meet this statutory requirement.

Very truly yours,

John Carr/ds

John Carr
Executive Director

6:10:176

BOARD OF COMMISSIONERS
HAROLD M. MERRILL, DISTRICT NO. 1
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WILLIAM G. KUEHNE, DISTRICT NO. 3

KENNETH R. COYLE, MANAGER

PUBLIC UTILITY DISTRICT NO. 1 OF FERRY COUNTY
TELEPHONE 509 775 3325
Progress with Power
P.O. BOX 324
REPUBLIC, WASHINGTON 99166

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LTIAP-3-83
RECEIPT DATE:
FEB 01 1988
AREA: DISTRICT
U (OK)

January 29, 1988

RECEIVED BY BPA
ADMINISTRATOR'S
OFC - LOG #: A88-062
RECEIPT DATE:
FEB 1 1988
DUE DATE:
2-15-88

Mr. Jim Jura
Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

Dear Mr. Jura:

As a full requirements customer of BPA, we are interested in policies and programs which have any impact on your revenues, thereby creating impacts on our wholesale power rates. One such BPA policy under development is the Intertie Access Policy.

Although we recognize the needs of those requesting third party access to the intertie, we have a greater need to maintain the financial strength of our sole power supplier, BPA. We believe it is essential that BPA maximize its revenues by retaining its competitive advantage to southwest markets. Additionally, we believe BPA will be worse off financially with the present draft Intertie Access Policy and that it should be revised to retain intertie control by BPA.

BPA has the right for a "federal first" intertie policy for its extra-regional firm and nonfirm sales and has a responsibility to its full requirements customers to maximize revenues from these sales. A limited use by third parties may be appropriate if and when the third A.C. line is completed, but not before.

Thank you for your consideration. I urge you to carefully consider these comments in the development of the final policy.

Sincerely,

Kenneth R. Coyle

KENNETH R. COYLE
Manager

KRC/rw
C.C. Wayne Lee - BPA Area Manager
John Cameron - BPA Manager of LTIAP Development

CLARK · SKAMANIA FLYFISHERS

Save A Natural Resource-Release All Wild Fish

CLARK · SKAMANIA FLYFISHERS
P.O. BOX 643
VANCOUVER, WA

January 29, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-84
RECEIPT DATE:
FEB 01 1988
AREA: DISTRICT
L (OP)

cc: S. Smith - PJJ
T. Hernandez - ALG

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Association
P.O. Box 12999
Portland, OR 97212

Dear Ms. Geiger;

The Clark-Skamania Flyfishers would like to express support for the environmental provisions in the new Intertie Access Policy developed by BPA. We do not believe that the export of electricity from the Northwest to California should be done at the expense of the Northwest's salmon and steelhead.

However, we would urge BPA to accommodate the Northwest Power Planning Council's regionwide Protected Areas concept into the BPA policy--not just those drainages that are tributary to the Columbia River. Inevitably protective measures that only apply to the Columbia River will only put more hydro development pressures on other Northwest river systems with related decreases in their fish populations related to passage difficulties and loss of habitat. When that occurs it will put all the more of the Northwest's fish harvest pressures on Columbia River fish stocks that migrate as far south as California and as far north as Alaska rendering Columbia River fishery investments meaningless.

The restoration of Columbia River fish is dependent on three major conditions: 1) increasing escapement through harvest constraints, 2) solving upstream and downstream passage problems at Columbia River basin dams, and 3) protecting remaining fish habitat from further losses that includes a moratorium on all of the Northwests remaining important fishbearing streams. If these provisions are not made the Northwest's rate payers' investment in fisheries on the Columbia River has been in vain.

cc: Senator Dan Evans
Senator Brock Adams
Governor Booth Gardner

Sincerely,

Bill McMillian

Bill McMillian, Secretary

MEMBER CLUB OF THE FEDERATION OF FLY FISHERMEN

THE NORTHERN WASCO COUNTY

PEOPLE'S UTILITY DISTRICT

PHONE (503) 296-2226

401 COURT STREET
THE DALLES, OREGON 97058

P. O. BOX 621

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-85
RECEIPT DATE:
FEB 01 1988
AREA: DISTRICT
W (OW)

January 29, 1988

Ms. Donna Geiger
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

RE: Comment on Proposed Long Term Intertie Access Policy
Exhibit "D": Protected Areas

Dear Ms. Geiger:

Please accept these comments as part of the official record on the proposed Long Term Intertie Access Policy. On behalf of this District, I would like to express our particular concern with Exhibit "D" of the LTIAP, regarding "Protected Areas."

We agree that BPA should be concerned with protecting its investment in fish and wildlife programs.

We agree that there are stream reaches within the Basin that are environmentally sensitive and need to be protected.

We acknowledge that there may be proposed hydro-electric projects which, if completed, would cause irreparable harm to anadromous fish and would undermine BPA's investment in mitigation and enhancement of run production.

We are equally sure, however, that there are sites that can be developed with no or minimal harm to the fishery. We feel it is unrealistic to preclude development at these sites with a blanket "protected area" designation.

Additionally we are concerned that BPA has acted prematurely by incorporating a proposal of the Power Council staff that has not even been accepted by the Council. It is our view that the

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"Electric Energy . . . . THE CLEAN AND EFFICIENT SERVANT . . . . use it wisely"

Protected Area concept, as currently articulated, is seriously flawed. Beyond the question of whether the Power Council has the statutory authority under the Regional Act to regulate hydroelectric projects, it has not yet specified which areas are to be "protected", nor is the criteria for designating the areas even fully specified.

We would strongly urge BPA to reconsider including the "Protected Areas" proposal in the LTIAP, and would recommend that the alternative proposals being developed by PNUCC be examined.

Recognizing that BPA has an investment to protect we would recommend that each site be considered individually and access granted or denied on the merits of the site.

Thank you for this opportunity to comment.

Sincerely,

Harold E. Haake

Harold E. Haake
Manager

HEH:ca

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RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # LTIAP 3-86
RECEIPT DATE
FEB 0 ? 1988
AREA: DISTRICT
L (OP)

CC: PII

Feb 1, 1988

Dear Ms. Geiger—

I Support Strong Fish and wildlife protection in The "Interim Access Policy." I urge BPA to require Compliance with "Protected Area" designations both inside and outside of The Columbia River Basin.

I Thank you for your Consideration.

Sincerely,

Ralph Zussman
5903 S.E. Insley
Portland, OR 97206-5542

PUD 3

Public Utility District 3 of Mason County
P.O. Box 490, Shelton, Washington 98584

Edwin E. Bustamante, Manager
(206) 426-8255

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG: LTIAP 3-57
RECEIVED
FEB 03 1988
AREA: DISTRICT
T (OS)

Commissioners
Robert C. Olsen
Harvey H. Wolnaca
John H. Whalen

February 1, 1988

Teresa Cunningham
Public Involvement Manager
Bonneville Power Administration
P. O. Box 12999
Portland, OR 97212

Dear Ms. Cunningham:

The following comments are intended to address the Bonneville Power Administration's (BPA) Revised Draft Long Term Intertie Access Policy (LTIAP).

There are several issues which are very important to this district as a metered requirements, non-scheduling, public utility. These issues will be briefly mentioned here. Any technical and language changes we would recommend are discussed in the Western Public Agency Group (WPAG) comments.

The revised policy gives generating utilities double the capacity for firm sales. We are very concerned about revenue losses to BPA which might result from this change. BPA's own analysis indicates that mitigation measures designed to prevent revenue losses fall short of desirable. In addition, the uncertainties of the market do not guarantee any additional revenue for BPA.

It is essential that provisions be maintained to prevent generating utilities from making large firm export sales and subsequently placing their load on BPA.

BPA is statutorily mandated to give priority to itself in allocating Intertie capacity for nonfirm sales. Any allocation method should give BPA certainty for its sales and revenues. BPA should reserve set portions of the Intertie for its nonfirm sales.

BPA should offer the remainder of Intertie Access on a fair and non-discriminatory basis. There should be no exclusions for resources which are operated by utilities which are either metered requirements or computed requirements with no generation load control areas. Furthermore, there shouldn't be any exclusions for new resources developed by any generating or non-generating utility once BPA has filled its reserved portion.

We are very interested in provisions for conservation transfers. Conservation deserves rights to Intertie Access as does any other generating resource.

We are as concerned about Intertie Access as any other utility or entity. Our rights to it are as important as any other utility or entity. When BPA makes surplus sales, we make surplus sales. No utility should be excluded from participation because of status as a customer. Nor should any utilty be excluded if its status as a customer changes in the future. This ensures that a full-requirements customer is not penalized whether it owns resources now or not. It also gives a full-requirements customer future flexibility if it needs to build resources or purchase conservation for its load growth.

Thank you for the opportunity to comment.

Sincerely,

MASON COUNTY PUD NO. 3
BOARD OF COMMISSIONERS

John H. Whalen, President

Harvey H. Wolnaca, Vice President

Robert C. Olsen, Secretary

JHW/HHW/RCO:nb

LT1AP-3-88 WAS A DUPLICATE LETTER AND REMOVED FROM COMMENT LOG

Resources Building
1416 Ninth Street
95814
(916) 445-5656
TDD (916) 324-0804

California Conservation Corps
Department of Boating and Waterways
Department of Conservation
Department of Fish and Game
Department of Forestry
Department of Parks and Recreation
Department of Water Resources

GEORGE DEUKMEJIAN
GOVERNOR OF
CALIFORNIA

THE RESOURCES AGENCY OF CALIFORNIA
SACRAMENTO, CALIFORNIA

Air Resources Board
California Coastal Commission
California Tahoe Conservancy
California Waste Management Board
Colorado River Board
Energy Resources Conservation and Development Commission
San Francisco Bay Conservation and Development Commission
State Coastal Conservancy
State Lands Division
State Reclamation Board
State Water Resources Control Board
Regional Water Quality Control Boards

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LT1AP-3 &
RECEIPT DATE:
1988 FEB 02 19
AREA:
P-3

Mr. John Cameron
Bonneville Power Administration
Post Office Box 3621
Portland, OR 97208-3621

January 28,

Dear Mr. Cameron:

The State has review the Intertie Update, Long Term Intertie Access Policy, submitted through the Office of Planning and Research.

Review of this document was coordinated with the State Water Resources Control Board, and the Departments of Conservation, Fish and Game, and Water Resources.

None of the above-listed reviewers has provided a comment concerning the subject document. The California Energy and Public Utilities Commissions will respond directly to you with any comments they have to offer because of their specific interests.

Thank you for providing an opportunity to review this project.

Sincerely,

for Gordon F. Snow, Ph.D
Assistant Secretary for Resources

cc: Office of Planning and Research
1400 Tenth Street
Sacramento, CA 95814

(SCH 88010102)

BIG BEND Electric CO-OPERATIVE, INC.

RITZVILLE, WASHINGTON 99169

January 29, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-90
RECEIPT DATE:
FEB 02 1988
AREA: DISTRICT
I (OS)
CC: AL-15

Mr. Jim Jura
Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208

Dear Mr. Jura:

As a full requirements customer of BPA, we are interested in policies and programs which have any impact on your revenues, thereby creating impacts on our wholesale power rates. One such BPA policy under development is the Intertie Access Policy.

Although we recognize the needs of those requesting third party access to the intertie, we have a greater need to maintain the financial strength of our sole power supplier, BPA. We believe it is essential that BPA maximize its revenues by retaining its competitive advantage to southwest markets. Additionally, we believe BPA will be worse off financially with the present draft Intertie Access Policy and that it should be revised to retain intertie control by BPA.

BPA has the right for a "federal first" intertie policy for its extra-regional firm and nonfirm sales and has a responsibility to its full requirements customers to maximize revenues from these sales. A limited use by third parties may be appropriate if and when the third A.C. line is completed, but not before.

Thank you for your consideration. I urge you to carefully consider these comments in the development of the final policy.

Sincerely,

Byron Wagner
Manager

cjb
cc: Wayne Lee, Manager
John Cameron - BPA, Manager of LTIAP Development

Electrifying

YOUR FARM AND HOME

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-91
RECEIPT DATE:
FEB 02 1988
AREA: DISTRICT
WL (OWL

Wendell Phillips
615 S. Phillippi
Boise, Idaho 83705

January 26, 1988

Public Involvement Office
Bonneville Power Admimnistration
P. O. Box 12999
Portland, Oregon 97212-0999

Ms:

Subject: Long Term Intertie Access Policy

I agree with the objectives you have indicated to be accomplished by the Intertie Policy as promoting the overall purpose of BPA. However, I have the following comments to offer:

Taking Advantage of Regional Diveresities. I am sure you have taken account of the fact that the exchange of power between the Northwest and the Southwest is not a constant flow either way. I assume, at least, that the demand varies in each region with the weather conditions that prevail at the time. I also assume that the daily flow either way is also a variant.

Planned Third A. C. Line. I understood that BPA was making a study of the effects that high voltage transmission lines had on animal life, both human and animal. I assume that the results of the study will be analyzed in the EIS that will precede the opportunity for the public to comment.

Thank you for this opportunity to comment.

Sincerely,

Wendell Phillips

Sharon L. Nelson, Chairman
Richard D. Casad, Commissioner
A. J. "Bud" Pardini, Commissioner

STATE OF WASHINGTON
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION
1300 S. Evergreen Park Dr. S.W. • Olympia, Washington 98504-8002 • (206) 753-6423 • (SCAN) 234-6423

February 3, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-92
RECEIPT DATE:
FEB 04 1988
AREA: DISTRICT
T (CS)

cc: I Normandeau ALG
PSI

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

Dear Ms. Geiger:

The Washington Utilities and Transportation Commission (WUTC) is pleased to submit these initial comments on BPA's Revised Draft Long-Term Intertie Access Policy (DIAP). We understand that final comments are due on February 19, 1988. Our initial comments are on two areas of the DIAP: Assured Delivery, and Fish and Wildlife.

Assured Delivery: The Importance of Seasonal Exchanges

As we noted in January of last year, the Commission's interest in the Long Term Intertie Access Policy is linked primarily to our preference for policies that promote the efficient use of the region's existing electric capacity and energy and result in fair treatment for all ratepayers. We believe that one goal of this policy should be to shape and extend the current surplus for the maximum benefit of ratepayers in the Northwest today and in the future. Seasonal exchanges between the winter-peaking Northwest and the summer-peaking Southwest are an important way to achieve this goal.

It is also our position that an Intertie policy must reflect broad public policy. This means that Bonneville must balance the revenues that it obtains from using the Intertie with its obligations as caretaker of a regional resource. It is our belief that the Congress would view seasonal exchanges of power to be in the public interest. We believe that Congress gave BPA authority over the Intertie with this broad public purpose in mind. In particular, we conclude that Congress authorized the intertie with the notion that seasonal exchanges between the two regions are in everyone's best interest.

We believe that it would be a costly error for Northwest ratepayers if, because of an overly-restrictive Intertie Access Policy, non-federal utilities were forced to build a separate line to the Southwest in order to consummate seasonal

exchange transactions. There has to be a better regional solution.

In this regard, we were pleased to see that BPA's revised DIAP has explicitly recognized seasonal exchanges. By allowing seasonal exchanges by non-federal utilities as a part of the 800 MW of Intertie capacity allocated for assured delivery, BPA will help the region to avoid the costs of expensive new resources.

We recognize that this move may result in lost revenues for BPA. However, as Bonneville and others have consistently pointed out, there is no reliable way of estimating how much or how little impact this allocation will have on BPA's revenues. Only time will tell. In addition, and just as important, if a reasonable method of mitigating BPA for any lost revenues can be developed, then BPA should be willing to consider increasing the 800 MW figure if there are additional demands for seasonal exchanges. Therefore, we would like to see a provision in the final policy that commits Bonneville to increasing the allocation for seasonal exchanges if the impacts on the agency's revenue are found to be minimal, or if the impacts can be successfully mitigated. We would suggest provisions be added to amend the 800 MW number without the need for development of a full new policy.

Fish & Wildlife: "Protect, Mitigate, and Enhance" the Resource

As Bonneville makes clear in documents supporting its DIAP, the agency has a responsibility under the Regional Power Act to see that access to transmission over the intertie does not create incentives for the construction of new hydro facilities in environmentally sensitive areas.

It is the policy of both the federal and state governments, reflected in numerous statutes, regulations and programs, to rebuild our region's anadromous fishery. It is appropriate for Bonneville to make certain that its Intertie policy does not work at cross purposes with this established policy.

In discussions on the draft policy, Northwest utilities expressed concern over BPA's proposal to reduce Intertie access for utilities who acquired or built hydro resources in "protected areas." In particular, utilities felt that PURPA rules might force them to purchase power from such a resource, with the result that they would be penalized for actions beyond their control.

However, it is our view that revenue losses associated with reduced access to the Intertie would lower the avoided cost that a utility would pay for a hydro resource developed in a protected area. We would take the "total system" approach to calculating avoided costs and recognize that any hydro resource developed in a protected area would result in a loss of benefits (for non-firm sales, seasonal exchanges, and other uses) associated with use of the Intertie. As a regulatory agency, our response to BPA's proposed policy would be to adjust the avoided costs to reflect these lost benefits. We believe this will result in a limitation of the resources that would be developed in "protected areas".

We are also concerned about two other issues in the DIAP and our final comments will reflect these concerns. First, the provision in the DIAP requiring a utility to use all of its own transmission capacity before being allowed a share of the BPA lines, seems to us to be a questionable policy--one that may not promote cost-effective seasonal exchanges. Second, in the public meetings held during January, 1988 an alternative form of mitigation was discussed: that of having a simple price per kw. Our concern here is that any such negotiated price must be cost-based and reflect actual losses expected by BPA due to seasonal exchanges.

Thank you for this opportunity to comment on your Draft Intertie Access Policy.

Sincerely,

Sharon L. Nelson
Chairman

Richard D. Casad
Commissioner

A. J. Pardini
Commissioner

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-93
RECEIVED
FEB 04 1988
AREA: DISTRICT

cc: PJI

2/1/88

Dear Ms. Geiger:

BPA's proposal to help protect fish and wildlife habitat in the Northwest in requiring utilities to comply with the NWPPC's "Protected Areas" designations is to be highly commended. As a Friend of the Earth I support strongly fish and wildlife protection in the "Intertie Access Policy" and ask that you require compliance with "Protected Area" designations both inside and outside of the Columbia River Basin.

Sincerely,

(Mrs.) Cicely M. McKendrick

no Address

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-94
RECEIPT DATE:
FEB 04 1988
AREA: DISTRICT
L (OP)

cc: PJI

Ms. Geiger: 2/1/88

I am a Portland, OR resident writting to let you know I strongly support fish & wildlife protection in the "Intertie Access Policy". I hope the Bonneville Power Administration will require compliance with "Protected Area" designations in & out of the Columbia River Basin! If the BPA limits its policy to the Columbia Basin alone, it could result in pressure to build dams west of the Cascades. This would impact salmon runs & ocean harvest pressures on all salmon stocks.

Thank you for your attention.

Sincerely,
Sandra Grady

cc: Oregon State Senators & Representatives

Sandra Grady
2825 N. Commercia
#13
Portland, OR 9722-

JOSEPHINE B. R. VON HIPPEL, M. D.
PHYSICIAN
748 18TH AVENUE
EUGENE, OREGON 97401
TELEPHONE 343-1313

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-95
RECEIPT DATE:
FEB 04 1988
AREA: DISTRICT
(LG)
OPG

cc: PJI

February 2, 1988

Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

attn: Ms. Donna Geiger
Public Involvement Manager

Dear Ms. Geiger,

We applaud the BPA position of denial of intertie access to hydroelectric developments which seek to establish facilities in designated fish protection areas. The BPA is seeking to protect and preserve Northwest fish runs, and we firmly support their efforts to protect fish and wildlife through their "Intertie Access Policy."

We do ask, however, that the BPA not limit this protection to the Columbia River Basin. We understand that the Northwest Power Planning Council is surveying rivers and streams throughout the Northwest to determine where new hydro development would be inappropriate. We hope that the final draft of the intertie access statement will include all of the areas designated for fish protection in the Northwest not just those of the Columbia River Basin. We do not wish to see increased pressure to build dams on coastal streams and rivers.

Sincerely yours,

Josephine B.R. von Hippel M.D.

Josephine B.R. von Hippel, M.D.

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # LTIAP-3-96
RECEIPT DATE:
FEB 04 1988
AREA: DISTRICT
I (OS)
cc: PII

239 34th Avenue E.
Seattle, WA 98112
February 1, 1988

Ms Donna Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon

Dear Ms. Geiger:

I am pleased with the foresight BPA has shown in supporting the sanctity of designated fish protection areas in the Columbia River Basin. I strongly support the BPA proposal to deny access to the Northwest-Southwest Intertie transmission system to private hydroelcetric developers as a means of insuring compliance with the "Protected Areas" designation for anadromous fish.

American and particularly Northwest taxpayers have spent a lot of money as a means of preserving already damaged Northwest salmon and steelhead runs. To let private developers and California utilities disregard sensitive fish areas amounts to a subsidy by the taxpayers. They destroy; we build and maintain more hatcheries and fish ladders.

I applaud the Intertie access policy and urge BPA to extend this policy to other important watersheds throughout the northwest. The quality of life and an important part of the northwest economy should not be held hostage to California's insatiable and most likely infinite appetite for cheap electric power.

Sincerely,

Eric Weber

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-97
RECEIPT DATE:
FEB 04 1988
AREA: DISTRICT
W (OW)
cc: PSI

Michele McKay
2233 Dixon
Klamath Falls, OR 97601

Ms. Donna Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

February 1, 1988

Dear Ms Geiger,

I want to express my support of strong fish and wildlife protections in the BPA "Intertie Access Policy". I encourage the BPA to require compliance with protected area designations both inside and outside the Columbia Basin. Many thanks to BPA on its proposed

Sincerely

Michele McKay

John & Michele Mc Kay
2238 Dixon
Klamath Falls, OR 97601

Washington Wilderness Coalition

P.O. Box 45187, Seattle, WA 98145-0187 (206) 633-1992

RECEIVED BY EPA
PUBLIC INVOLVEMENT
LOG # LTIAP-3-98
RECEIPT DATE:
FEB 04 1988
AREA: DISTRICT
T (CS)
CC: PJF
J. Rumsey - NLG

1 February 1988

Ms. Donna Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Dear Ms. Geiger:

The Washington Wilderness Coalition (WWC) would like to congratulate the Bonneville Power Administration on putting forth an impressive proposal to protect fish and wildlife in the Northwest states. The BPA's Intertie Access Policy demonstrates an encouraging interest in conservation. The BPA's compliance with the NPPC's Protected Areas proposal will greatly strengthen its designations.

WWC would like to see the Intertie Access Policy proposal apply to all anadromous fish habitat and other critical and scenic rivers, not exclusively the Columbia Basin.

Enclosed is a copy of the Washington Wilderness Coalition's comments on the Northwest Power Planning Council's issue paper on Protected Areas.

Thank you for this opportunity to comment.

Sincerely yours,

Kristen Shepherd

Kristen Shepherd
Administrative Assistant

Enc.

Attachment
LTIAP-3-98

Washington Wilderness Coalition

P.O. Box 45187, Seattle, WA 98145-0187 (206) 633-1992

15 January 1988

Northwest Power Planning Council
850 SW Broadway
Suite 1100
Portland, OR 97205

To the Council: RE: Protected Areas

The Washington Wilderness Coalition would like to thank the Northwest Power Planning Council for giving the people of the Northwest an unprecedented opportunity to choose protection for scenic and ecologically critical riparian habitat. We encourage the Council to take full advantage of this opportunity to fulfill its legal obligation to protect environmental quality and the health of fish and wildlife.

The Washington Wilderness Coalition (WWC) would like to submit the following comments to the Northwest Power Planning Council on its issue paper, Protected Areas Designation. The WWC is a state-wide organization concerned with the protection, preservation, and ecologically sound management of public lands, wilderness, wildlife, recreation, and water in the State of Washington. At present, our 1,000 individual members and 35 member organizations represent over 20,000 citizens who support wise stewardship of our free-flowing rivers and streams.

The WWC requests that three improvements be made on the issue paper: first, the staff proposal should protect critical habitat in regions of the Puget Sound, Olympic Peninsula, and the Pacific coast as well as the Columbia River Basin; second, it should provide stronger protection for resident fish and wildlife habitat; third, recreational, scenic, cultural, archaeological, and other resource values should be used as criteria for designating protected areas.

It is encouraging to see that anadromous fish values have received much attention in the staff proposal. Strong protection for anadromous fish habitat outside the Columbia Basin will reduce the threat to develop sea-migrating fish habitat in other areas of the Pacific Northwest. Many other

basins need protection from hydro development. The Snohomish, Nooksack, Skagit, and Cowlitz all deserve protection. Also, areas in the Puget Sound, the Olympic Peninsula, and regions of the Pacific coast should be designated for protection.

Dams proposals already threaten many unique spawning routes. At this time, thirty-five percent of migrating fish habitat has been lost in the Columbia Basin to dams. As acknowledged in the proposal, without adequate protection, these losses will multiply throughout Washington State and the Northwest.

However, to protect anadromous fish species only will funnel development into upstream habitat. The WWC feels that the staff proposal does not provide strong enough protection for wildlife and resident fish species. Large areas of critical wildlife and resident fish habitat would be left unprotected under the staff proposal. All class I resident fish and wildlife habitats, as identified by the Pacific Northwest Rivers Study, need to be protected.

Because the WWC stands for multiple use of public lands and water, it believes that criteria for protecting environmental quality should include recreation, scenic, cultural, and archaeological considerations. We are convinced that protection of these values is integral to protecting overall environmental quality. If only the criteria of fish and wildlife quality are employed, such popular and spectacular rivers as the Cispus, the North and South Forks of the Snoqualmie, the Owyhee, the Metolius, Henry's Fork, the Payette, and many more would be at risk.

Also, using only fish and wildlife habitat values as criteria does not comply with the NWPA mandate to consider other resource values in hydropower planning. The Pacific Northwest Rivers Study provides enough information to broaden the Protected Areas criteria.

Granting protection to a number of the Northwest's most critical free-flowing rivers would mean an end to wasted social resources in battles against licensing. As the system stands, conservation groups must repeatedly intervene in FERC's licensing of hydro projects. Many of their citizen members value rivers in their natural state and feel that construction of dams destroys many of the resources Northwesterners love: whitewater, fish, water purity, scenery, and wildlife, to name a few. For example, the WWC is currently intervening on the Elkhorn Project proposed for the Dosewallips River. This spectacular steelhead habitat has been hailed by the Natural River Inventory as having "outstandingly remarkable scenic values."

Further, a 63% majority of voters in the Jefferson County Public Utility District demanded no development. Clearly, this site is unsuitable for a dam proposal.

It is especially important that, through the NWPPC, FERC receive an accurate impression of the region's enthusiasm for undeveloped river habitat. Especially in this time of surplus electricity, proposals like the Elkhorn Project, and many others, are truly unnecessary.

The NWPPC is faced with an invaluable opportunity to protect a wide range of critical habitat and other resources. Let's make sure that we do not let this opportunity go by without using it to its greatest potential. Please engage in rulemaking to implement the Powers Act designations as soon as possible. We need to take full advantage of the Northwest Power Act provision giving the Council authority to designate and protect environmentally important areas throughout the Pacific Northwest, not just to fulfill its obligation to preserve the Columbia Basin.

Thank you for this opportunity to comment.

Sincerely yours,

Kristen Shepherd
Administrative Assistant

cc: Ted Bottiger
Tom Trulove
Governor Booth Gardner
Senators and Representatives of Washington
Northwest Rivers Council

JOLENE UNSOELD
TWENTY SECOND DISTRICT

RESIDENCE
6110 BUCKTHORN N W
OLYMPIA WA 98502
206-866-8615

OLYMPIA OFFICE
HOUSE OFFICE BLDG
OLYMPIA 98504
206 786 7940

PUBLIC INVOLVEMENT
LOG # LTIAP-3-00
RECEIPT DATE:
FEB 04 1988
AREA: DISTRICT
T (OS)
CC: ALG/JJ
PII

House of Representatives

STATE OF WASHINGTON
OLYMPIA

February 1, 1988

Donna Geiger
Public Information Manager
BPA
PO Box 12999
Portland, OR 97212

Dear Donna:

I am writing to support the position of the Bonneville Power Administration to prohibit intertie access for new hydroelectric projects within the Protected Area designations compiled by the staff of the Northwest Power Planning Council. This policy of the BPA will help preserve important fish and wildlife habitat and the investments that have been made to improve such habitat. I applaud your efforts to support the protected designations.

I have also written to the Northwest Power Planning Council and have enclosed a copy of that letter.

Sincerely,

Jolene Unsoeld

Jolene Unsoeld
State Representative
22nd Legislative District

JU:sc

Attachment
LTIAP 3-99

JOLENE UNSOELD
TWENTY SECOND DISTRICT

RESIDENCE
6110 BUCKTHORN N W
OLYMPIA WA 98502
206-866-8615

OLYMPIA OFFICE
HOUSE OFFICE BLDG
OLYMPIA 98504
206 786 7940

House of Representatives

STATE OF WASHINGTON
OLYMPIA

January 12, 1988

Janie Pearcy
Northwest Power Planning Council
850 SW Broadway, Suite 1100
Portland, OR 97205

Dear Janie:

I am writing about the report by the Northwest Power Planning Council on Protected Area Designations. The proposal discussed in this paper would protect thousands of miles of critical habitat in Washington (as well as Oregon, Idaho and western Montana) from new hydro development.

The Northwest, at this time, has a surplus of electricity and does not need new hydroelectric facilities, especially not in critical fish and wildlife areas. The Protected Area designations will protect habitat needed by salmon and threatened and endangered species. They would ensure that ratepayer and taxpayer investments in fish and wildlife restoration would not be undermined by new development.

This new policy will no longer allow the export of electricity from the Northwest to California at the expense of Northwest fish and wildlife resources. It is an important step in power planning and resource protection. I urge you to give it your fullest consideration.

Sincerely,

Jolene Unsoeld
State Representative
22nd Legislative District

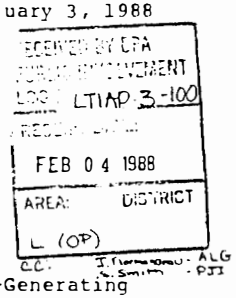
JU:sc

cc: Ted Bottiger

FIFTIETH LEGISLATURE
1987-88
COMMITTEES
ENVIRONMENTAL AFFAIRS
ENERGY & UTILITIES
HIGHER EDUCATION

NON-GENERATING PUBLIC UTILITIES
921 SW WASHINGTON STREET, SUITE 860
PORTLAND, OR 97205
(503) 227-3524

February 3, 1988



Ms. Jo Ann Scott, Manager
Public Information and Involvement
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208

Dear Ms. Scott:

This letter constitutes the comments of the Non-Generating Public Utilities group on BPA's revised draft of the Long Term Intertie Access Policy dated December 15, 1987.

Members of our group and I have attended many meetings over the past several months on the Long Term Intertie Access Policy (LTIAP). We have heard the arguments related to the positions of California utilities as well as Northwest generating utilities, both public and private, and we have read correspondence setting forth the positions of those parties. We have recognized all along that this is a complex and very technical subject but that the potential impacts to BPA and its customers are enormous. Since the Non-Generating Public Utility group consists of essentially full requirements customers of BPA, we do not have the where-with-all to involve ourselves in the intricate details of a number of the technical applications of the proposed policy. However, we do understand as well as anyone that the primary focus of the interests of other parties is to shift revenues from BPA to their own utilities. Our group consists of twenty of BPA's full requirements utilities and it is our view that all of your full requirements customers would wholeheartedly oppose such a shift of revenues for the purpose of achieving regional and interregional harmony.

Rather than directing our comments to the technical detail of the LTIAP we would like to direct your attention more to policy issues as to what we see as BPA's responsibility in this matter in what would appear to be equitable for all parties.

BPA customers just experienced a rate increase in October 1987 and several before that over the past few years. Rate stability is one of the primary concerns of your customers, particularly the full requirements customers that have few options other than BPA for their power supply. They have taken

some comfort in BPA managements' view that it appears that there will be rate stability. We are looking optimistically that BPA will not need to raise rates in 1988 nor in 1989 during the next rate review period. We recognize that rate stability is dependent upon your revenues and particularly those revenue sources that have substantial fluctuations. The two primary ones being from the DSIs and the Southwest market. Your variable rate for the DSIs has apparently been successful and we are gratified with that result. The LTIAP is a foundation for addressing the Southwest market and decisions made now will have lasting impacts since all parties will make transactions with your policy as a benchmark. We see that policy as not only a technical one, but also reflecting BPA's views of its obligations to full requirements customers.

One of the fundamental views expressed by generating utilities both inside and outside the region, is that with a correct policy the regional financial return will be greater than if BPA simply looks at its own revenue returns. We are sympathetic to that argument. However, we are not sympathetic with a policy that achieves greater benefits for the region, but results in even greater reductions in revenues to BPA. Generating utilities that achieve substantial revenues on the intertie through the LTIAP should be willing to share the benefits so achieved or as a minimum reimburse BPA for the losses it incurs in providing intertie transmission capability.

Of the approximate 5200 MW of present intertie capacity about 4200 MW is owned by BPA and with the DC upgrade that will increase to 5200 MW. The proposed Third AC adds about 1600 MW but the ownership shares are not yet determined. BPA could elect to implement what has been characterized as a BPA first policy. In other words, BPA would market all of its firm and nonfirm on the Intertie and what transmission capacity is left over would be available to all other parties. Under such a policy substantial transmission would still be available to generating utilities but the assurance and dependability of the availability of the transmission would vary given the condition of the power system at the time. Nevertheless, BPA would likely achieve its greatest revenues under such a policy although there would be severe utility and political unrest. BPA has long since abandoned such a policy and although your staff has not disclosed the resulting reduced revenues to BPA, we understand it could substantially exceed the revenue losses of granting 800 MW of assured access. We understand the need for cooperation within the utility industry and the desire to share markets and try to operate the power system as if it is under one ownership. The fact is it is not under one ownership and although there is operational

coordination for optimal power production, we do not believe BPA should be the deep pocket for revenue losses. We believe it is entirely appropriate for BPA to request reimbursement or mitigation for its financial losses.

Now BPA is proposing further deterioration of its revenues through assured access of 800 MW on the Intertie which includes the DC upgrade which is now under construction and the yet to be built Third AC. BPA has proposed some mitigation measures to alleviate its substantial losses under this proposal but it still results in a BPA projected 18 year levelized annual loss of revenues of up to $20 million per year based on 1987 dollars. Even then we see other parties wanting more. Our view and again I believe the view of all your full requirements customers, is that there must be a mechanism for BPA to not only be fully reimbursed for its revenue losses under assured access, but also achieve some mitigation of the losses that BPA will incur in sharing the nonfirm market with other Northwest utilities.

We recognize that developing mitigation concepts in terms of putting limits and conditions on transactions is a difficult one. The two mitigation measures proposed in the LTIAP are complex and even then only return on the order of 20-25 percent of BPA's losses. However, it is our view that although it may be difficult to negotiate a simple cash reimbursement to BPA based on each transaction, that concept needs to be seriously investigated. Another alternative is a system access fee. The objective is to recoup projected losses from those parties that are profiting by accessing the Intertie.

The most recent BPA studies on the LTIAP financial impacts are based on the second DC line and the Third AC line being operational. Upon questioning your staff, they agreed that if for some reason the DC upgrade is delayed or the Third AC line is not constructed that the projected net loss after mitigation to BPA of up to $20 million annually would be greater. They have made no studies to determine how much larger the loss to BPA would be and it was indicated that such information would not be available before the adoption of the LTIAP in April. We are particularly concerned about the assumption related to the Third AC line. Not only are there still significant questions concerning the cost effectiveness of such a line and in particular what the ownership proportions would be, we believe the potential financial impact estimates on BPA are incomplete. The financial impacts to BPA could be substantially higher and the proposed mitigation measures would even recover a less share of projected BPA losses. It again demonstrates that proposing mitigation by limitations or conditions in operating the system

is only a partial solution and not a very good one at that. Looking at each transaction and providing reimbursement to BPA for its losses seems much more appropriate. If the region is better off under such arrangements and if the utility is better off under such arrangements, then there should be no objection to reimbursing BPA since the utility would still be better off than if it had not conducted the transaction at all.

Another policy issue related to the Intertie is the 800 MW magnitude of assured access. We accept as appropriate that amount, given full mitigation of losses to BPA. However, we would object to mitigation being based on 800 MW and then other parties through ownership rights of the Third AC achieving additional access for which there was no mitigation. It seems appropriate that if 800 MW is the appropriate assured access level, and utilities gain additional access through Third AC ownership their assured access through the existing BPA Intertie should be reduced an equal amount. In that case all parties are achieving what was bargained for originally and additional revenue losses to BPA would not accrue through some future and as yet unknown development.

As far as the fish and wildlife section is concerned we are supportive and encourage BPA to protect its investment and achievements in the fish and wildlife program. We believe it is inappropriate for utilities to build hydro projects which may eventually have negative impacts on the fish and wildlife program that are unforseen at the time, and have BPA as a funding source pay to correct whatever damage is done. We would be satisfied if utilities would hold BPA harmless in such hydro projects so that BPA would not incur such costs. If such a hold harmless approach is unachievable BPA must protect its investment by other means. However, we do not believe that the Intertie Access Policy is the mechanism to deal with that problem unless such hydro projects are directly related to the need for Intertie Access. With that in mind, we suggest that BPA limit its attention to those hydro projects that need to use the Intertie and the Southwest market to justify the hydro project's economic feasibility. Those projects that are economic without the need of the Intertie should be handled in some other fashion. We are not keen on the Northwest Power Planning Council's (NPPC) protected area designation nor any such designation developed by BPA as a means of dealing with this issue. The proposed designated area unless much more limited in scope seems to be too broad of an approach and too all encompassing.

Our conclusion is that BPA should not place itself through its proposal in a position of absorbing costs so that other

utilities may gain. BPA does have certain regional obligations but its primary obligation should be to its existing customers regarding power supply and rates. There are some equity issues that need to be considered for use of Intertie facilities but we do not believe that the proposed mitigation measures for BPA loss of revenues provides for equity to BPA and its customers.

Sincerely,

Ray Foleen

Ray Foleen
Executive Director

RF:sl:248

BASIN ELECTRIC POWER COOPERATIVE
[illegible] EAST INTERSTATE AVENUE
BISMARCK, NORTH DAKOTA [illegible]
PHONE [illegible]

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-101
RECEIPT DATE:
FEB 04 1988
AREA: DISTRICT

February 3, 1988

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
905 NE 11th Avenue
Portland, Oregon 97232

Dear Ms. Geiger:

Your letter of December 18, 1987, asked for comments on Bonneville's (BPA) Revised Draft Long Term Intertie Access Policy (LTIAP).

Basin Electric is interested in the LTIAP because it currently is selling 185 MW of capacity and energy to the Western Area Power Administration (WAPA) from its Antelope Valley Station in North Dakota. WAPA delivers this power to its loads in Northern California, utilizing facilities of BPA under Contract DE-MS79-848P91627. We are pleased to note that this contract will continue to receive access under the LTIAP.

However, Basin Electric believes that the LTIAP should be amended to include a provision for the extension of Contract DE-MS79-848P91627 after its October 31, 1990, expiration, if it is in the best interest of the parties involved to extend the contract. The extension of this contract would enable WAPA to utilize its investment in transmission facilities in eastern Montana. It would also enable BPA to utilize its significant investment for the 185 MW path on the 500 kV transmission facilities in Montana and a long-term wheeling contract in that state that will not be used once this contract expires in 1990.

BOARD OF DIRECTORS
QUENTIN LOUDEN [illegible]
GERARD JACOBS [illegible]
GEORGE HARGENS [illegible]
BILL WAGNER [illegible]
J. WILLIAM KELLER [illegible]
HOWARD L. CARLSON [illegible]
MERRILL K. STERLER [illegible]
WAYNE S. CHILD [illegible]
RAY C. KRUCKENBERG [illegible]
ROBERT L. McPHAIL [illegible]
EQUAL OPPORTUNITY EMPLOYER M/F/H

It only seems prudent that once WAPA and BPA have invested millions of dollars in a long-term transmission path to the coal fields of North Dakota, this investment should be utilized and made available for future transactions.

Sincerely yours,

Howard F. Easton
Assistant General Manager
Marketing & Member Services

HFE/CMO/jjw
VIA: UPS Next Day Air

Oregon Rural Electric Cooperative Association

575 Union St. NE • Salem, OR 97301 • (503)585-9988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-102
RECEIPT DATE:
FEB 04 1988
AREA: DISTRICT
L (OR)
cc: ALB

February 3, 1988

Jim Jura, Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

Dear Jim:

The following are the views of the Oregon Rural Electric Cooperative Association (ORECA) regarding the proposed Long-Term Intertie Access Policy (LTIAP). This association represents the 16 member-owned electric cooperatives serving some 230,000 Oregonians.

Members of ORECA are full requirements customers of BPA. As go Bonneville, so go the fortunes of the electric cooperatives. We very much appreciate and benefit from Bonneville's sensitivity to that situation. Bonneville's support of the low density discount, irrigation assistance and willingness to provide technical assistance means ORECA members can supply reasonably priced electricity to rural consumers.

As welcome and needed as those provisions are, the cooperatives are mindful that the rates it charges to the cooperative consumer are largely based on BPA's revenues. This last rate case showed that when BPA's revenues dip, rate increases are imposed. That, as we all know, is not in any utility's best interest.

That's why the cooperatives are very concerned that BPA not subordinate its ownership in the LTIAP to placate the interests of generating utilities.

We are not persuaded by the arguments posed by the generators that increased access will benefit the region far more than if BPA looked soley after its own revenue requirements. We're not suggesting that the LTIAP cater only to Bonneville's needs, but we are urging that the Policy not tilt in favor of "what's best for the region," at the expense of BPA full requirements customers.

ORECA substantially agrees with the Non-Generating Utilities' contention that BPA be fully reimbursed for any revenue loss, if assured access to the interties is allowed. BPA should also develop a mechanism whereby Bonneville is compensated for losses incurred in sharing the non-firm market with generating utilities.

During the Programs in Perspective hearing BPA recently conducted, the message urged by all participants was to hold the line on rates. There are but two ways to do that, cut costs and increase revenues.

Without a LTIAP policy that protects BPA's exports revenues, Bonneville will be hard pressed to meet the "no rate increase" goal demanded by generators and non-generating utilities. To do so means BPA needs to construct a policy that doesn't penalize itself, or its wholesale customers, to benefit generating utilities' customers.

Thank you for your consideration of the views of the Oregon Rural Electric Cooperative Association.

Sincerely,

MARK

Mark Glaess
General Manager

cc: ORECA Board of Directors
John Cameron
George Gwinnutt
Ray Foleen
PNGC
NIU



SERVICE CENTERS:
OROVADA, NEVADA
FIELDS, OREGON

HARNEY ELECTRIC COOPERATIVE, INC.
1326 HINES BLVD
BURNS, OREGON 97720
PHONE (503) 573-2061

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-B-103
RECEIPT DATE:
FEB 04 1988
AREA: DISTRICT
L (OR)
CC. AL-15

January 29, 1988

Mr. Jim Jura, Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621

Dear Mr. Jura

Harney Electric is a full-requirements customer of BPA. We are concerned that there is a possibility that BPA will "cave in" to political pressure from the Southwest in the Intertie Access Policy. We strongly feel that BPA must protect its revenues for the benefit of its customers, especially its Preference customers.

We feel that BPA has a right and a mandate for a Preference First intertie policy for its out-of-region sales and a responsibility to its non-generating customers to maximize revenues from intertie access.

We feel that this can only be accomplished through firm BPA control of the intertie.

Thank you for considering our views. We urge that these comments be carefully considered in the development of the final policy.

Sincerely yours

Harney Electric Cooperative

Jack Heaston, manager

cc Tom Blankenship, BPA - Boise
John Cameron, Manager - BPA LTIAP Development

UMATILLA ELECTRIC COOPERATIVE ASSOCIATION
750 W. ELM • P.O. BOX 1148 • HERMISTON, OREGON 97838
Telephone: (503) 567-6414 • Fax: (503) 567-8142

February 2, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-104
RECEIPT DATE:
FEB 04 1988
AREA: DISTRICT
L (OP)
CC: AL-15

Mr. James J. Jura
Administrator
U. S. Department of Energy
Bonneville Power Administration
P. O. Box 3621
Portland, Oregon 97208

Dear Mr. Jura:

As a full requirements customer of BPA, we are interested in policies and programs which have any impact on your revenues, thereby creating impacts on our wholesale power rates. One such BPA policy under development is the Intertie Access Policy.

Although we recognize the needs of those requesting third party access to the intertie, we have a greater need to maintain the financial strength of our sole power supplier, BPA. We believe it is essential that BPA maximize its revenues by retaining its competitive advantage to southwest markets. Additionally, we believe BPA will be worse off financially with the present draft Intertie Access Policy and that it should be revised to retain intertie control by BPA.

BPA has the right for a "federal first" intertie policy for its extra-regional firm and nonfirm sales and has a responsibility to its full requirements customers to maximize revenues from these sales. A limited use by third parties may be appropriate if and when the third A.C. line is completed, but not before.

Thank you for your consideration. I urge you to carefully consider these comments in the development of the final policy.

Very truly yours,

Russell Dorran
Manager

RND:dbm

c:Waggenhoffer

LIVE BETTER — FARM BETTER — ELECTRICALLY

Donna Geiger 2-1-88

I strongly support BPA's proposal to protect remaining fish and wildlife habitat in the entire Pacific N.W.

Dams and other utility developments have damaged enough of our environment. They should be built only where there will be no further damage.

Sincerely,

Jack Remington
307 NE Fargo
Portland, OR
97212

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-105
RECEIPT DATE:
FEB 03 1988
AREA: DISTRICT
L (OP)
CC: PEE

DAN D IVES
4/6 128TH SE
BELLEVUE, WA
98005

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-106
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
T (05)

2/1/88

DEAR MS GEICER,

cc: PII

I READ RECENTLY OF THE BPA PROPOSAL TO PROTECT FISH BY LIMITING DAM PROJECTS ON COLUMBIA BASIN RIVERS. BRAVO!! IT IS TIME THE FISH ENVIRONMENT WAS GIVEN PRIORITY. I STRONGLY SUPPORT THE "INTERTIE ACCESS POLICY". HOWEVER, I THINK THE IDEA SHOULD BE EXPANDED TO RIVERS WEST OF THE CASCADES WHERE FISH PROTECTION IS EQUALLY IMPORTANT.

THANK YOU FOR YOUR TIME.

SINCERELY

DAVID IVES

Feb. 2, 1988

To: Ms. Donna Geiger
Public Involvement Manager
BPA Box 12999 (Bonneville Power Administration)
Portland OR 97212

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-107
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
T (05)

cc: PII

From: Jan Howell
308 N. Cushing St.
Olympia, WA 98502

Dear Ms. Geiger,

Hello. I am writing to let you know I support your (BPA's) proposal to protect wildlife habitat and fish in the beautiful but fragile Pacific Northwest.

I support the Intertie Access Policy and hope that BPA will require compliance with "Protected Area" designations both inside and outside of the Columbia River Basin. Let's continue to protect what mother nature has provided for our enjoyment and for future generations.

Thanks for listening.

Sincerely,
Jan Howell

copies sent to:
Rep. Don Bonker, Washington
Senator Dan Evans Washington
Rep. John Dingell Michigan
Rep. Bill Schuette Michigan

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-108
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
F(OS)
CC: PJI

Feb 4, 1988

Ms. Donna Geiger
Public Involvement Manager

Dear Manager:

I support strong fish and wildlife protection in the BPA "Intertie Access Policy." I ask that you require compliance with "Protected Area" designations both inside and outside the Columbia Basin. More dams west of the Cascades could impact salmon runs and leave less fish resources which are very important to our economy, food resources and recreation. Do not let pressure from developers and utilities jeopardize our valuable fish and wildlife.

Sincerely yours.

M. E. Covert

MS. M.E. Covert
3126 Columbia Heights Road
Longview, WA 98632

Public Utility District of Clark County
P.O. Box C-005 • Vancouver, Washington 98668
(206) 699-3000 • Toll Free in Washington 1-800-562-1736

Boards of Commissioners
Carter Curtis Suttle, District 1
Paul Bonkosky, District 2
Jane VanDyke, District 3

W. Bruce Boyer
Chief Executive Officer/General Manager

"A consumer-owned electric and water utility, established 1938."

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-109
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
L (OP)

February 4, 1988

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
Post Office Box 12999
Portland, Oregon 97212

Dear Ms. Geiger:

Following are the District's comments on BPA's revised Draft Intertie Access Policy (LTIAP). As a metered requirements customer of Bonneville, the District is especially interested in the success of BPA's intertie policy. If the policy is not successful in protecting BPA's revenues, and hence its ability to make its Treasury payments, it will be Bonneville's metered requirements customers who will suffer the financial consequences.

Bonneville Has Statutory Priority Access to the Intertie

The use of the Pacific Northwest to Pacific Southwest intertie is governed by federal statutes. These include the Bonneville Project Act, the Federal Columbia River Transmission Act, the Regional Preference Act, and the Regional Power Act. These statutes require that Bonneville initially allocate itself sufficient access for the sale of federal power and then, if any capacity remains, for nonfederal use.

The Ninth Circuit Court upheld this position and went on to say that Bonneville is mandated to insure sufficient capacity for itself not only for today but also for its future requirements. The intent of this position is to make certain BPA remains self supporting.

BPA's Proposed Policy Violates Statutory Requirements

The proposed policy allows for the allocation of Intertie capacity to nonfederal users in advance of federal need. The policy permits this by:

1. Allowing nonfederal generating utilities access to the Intertie for seasonal exchanges and firm power transactions, and

2. allocating Intertie capacity to nonfederal users for nonfirm transactions.

Bonneville's proposed policy attempts to mitigate the financial impact of lost sales through the use of revenue mitigation language. Although the access granted to nonfederal users is certain, the partial mitigation measures are uncertain at best. The policy does not ensure either the level of mitigation or the certainty that the mitigation measures will continue through time.

Bonneville Must Exercise its Priority to Intertie Access

A recent Ninth Circuit Court of Appeals decision made it sufficiently clear that Bonneville is statutorily required to give itself priority access to the Intertie. The revised LTIAP fails to comply with this statutory requirement. By sharing access with generating utilities, BPA forgoes substantial revenues and thereby increases the cost of power to its other customers. This approach is in opposition to BPA's statutory requirements.

The District supports the position that Bonneville should revise its draft LTIAP to allow sufficient Intertie capacity for the marketing of federally generated power prior to allocating for nonfederal needs. Bonneville can accomplish this by setting aside an amount of capacity equal to its needs and then allocate the remaining capacity to other regional utilities. This would result in BPA complying with the statutory requirement that it protect its ability to make its Treasury payments and would effectively protect BPA's requirements customers who are ultimately liable for that obligation. The results of this suggested position would also provide greater planning certainty for Northwest and California utilities.

The District supports the Western Public Agency Group position with regard to the LTIAP. Thank you for the opportunity to offer comments on the development of important policy.

Very truly yours,

James L. Sanders
Director of Technical Services

JRA/pw

Association of Public Agency Customers
700 N.E. Multnomah, Suite 1200
Portland, Oregon 97232
(503) 239-9169

Chairman - Richard Baxendale
Boise Cascade Corp.
Vice Chairman - Mark Hoehne
Longview Fibre Co.
Secretary - Randy McEwen
Crown Zellerbach Corp.
Treasurer - Wes Engstrom
The Boeing Company

Managing Director - Ken Canon
Technical Director - Lincoln Wolverton
Legal Counsel - Garvey, Schubert & Barer

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP 3-110
RECEIPT DATE:
FEB 0 5 1988
AREA: DISTRICT
L (OP)

February 4, 1988

Teresa Cunningham Byrnes
Acting Public Involvement Manager
Bonneville Power Administration
P. O. Box 12999
Portland, OR 97212

RE: Comments of the Association of Public Agency Customers on BPA's Long Term Intertie Access Policy

Dear Teresa,

The Association of Public Agency Customers (APAC) welcomes the opportunity to comment on BPA's revised draft Long-Term Intertie Access Policy. APAC members purchase a substantial amount of power from public agencies in the region, both full requirement customers and generating public agencies. In addition, some APAC members purchase power from investor owned utilities in the Northwest and others have facilities in California served by California public and private utilities. As we evaluate the LTIAP, we seek a balance where the Intertie is used in a manner that creates the least harm to BPA while still providing the opportunity for benefits for other non-federal utilities.

We believe the revised draft LTIAP and the ideas that have been generated by the recent discussions on this issue go a long way in meeting this balanced objective. We are disappointed that the California interests fail to see the movement that we have observed. We support BPA's expansion of the amount of Intertie capacity that is allocated to assured access for firm transactions if those transactions are mitigated in such a way as to minimize financial harm to BPA. The same holds true with

seasonal exchanges. The exact nature of the mitigation and how it is characterized and charged is less important to us than agreement on the principle underlying mitigation. The principle that BPA should not suffer financial harm through the assured use by others of its Intertie is sound.

Our only comment on allocating Intertie capacity under Condition 1 relates to the use of the Hydro Cap. We believe the Hydro Cap is an appropriate and fair consideration to be used in the determination of Intertie allocation under Condition 1. Recent discussions have focused on either changing the Hydro Cap to include some thermal base load resources to essentially eliminating it through the inclusion of combustion turbines in the allocation. While the inclusion of some thermal resources in this allocation may be appropriate, we believe it would be inappropriate to include combustion turbines in the allocation mechanism.

Our one specific concern with the LTIAP addresses the issue of assured access for power transactions that existed prior to the creation of the initial Near-Term Intertie Access Policy and that are still in effect today. We believe that such transactions should continue to receive the assured access that they have been provided in the past four years. These specific comments address the situation of Longview Fibre Company, a member of the Association of Public Agency Customers.

BACKGROUND

Longview Fibre Company (LFC) is a pulp and paper company located in Longview, Washington and is provided electricity by the Cowlitz County PUD. LFC uses 110 MW of electricity at a high load factor. LFC has cogenerated power since 1927 and currently has turbine capacity of 72 MWs. For a period of time prior to 1979 forty-five MWs of this power was under contract to the DSIs. This contract was assumed by BPA in 1979 and expired in 1983. LFC then contracted to sell 45 MWs of power to the Western Area Power Administration (WAPA) beginning in October, 1983. This power is wheeled under a transmission agreement with BPA. Absent the contract with WAPA, LFC would displace 45 MWs of firm power purchases from Cowlitz County PUD. ALthough Cowlitz County PUD is a generating public, Cowlitz purchases power solely from BPA for resale to LFC. Therefore, without the LFC/WAPA sale, Cowlitz County PUD and BPA would each lose a 45 MW, high load factor, priority firm power sale.

THE DRAFT LONG-TERM INTERTIE ACCESS POLICY

The Draft Long-Term Intertie Access Policy (LTIAP) does not specifically address the LFC/WAPA transaction as clearly as it should. This is, admittedly, a unique transaction. This is not only a pre-existing contract, it is a contract that maintains a priority firm load in the region that BPA is obligated to serve. While the LTIAP focuses on the impact of assured access for non federal entities on BPA's Power Marketing program, this contract actually has positive benefits to BPA's Power Marketing program by maintaining a constant, priority firm load in the region, while LFC takes the risk of marketing its power out of the region. In those instances when WAPA has been unable to take the power from LFC, LFC has not run its turbines and has continued to take all of its power from Cowlitz PUD. Of course, BPA also benefits from the transmission revenues generated by this contract.

PROPOSED LANGUAGE TO REFINE LTIAP

To resolve the ambiguity in the LTIAP we would suggest the following language. This would be an addition of a new subsection to Section 4 (c) on page 5 of the draft LTIAP. The existing subsection (3) **Conditions** would be renumbered to (4). The new subsection would be under subsection (c) since this sale should not be subject to Exhibit B limits under the LTIAP. **The new subsection (3) would read as follows:**

(3) **Existing Contracts that Maintain Priority Firm Sales.** BPA will provide Assured Delivery for the term of existing firm power agreements that maintain priority firm sales in the region where BPA is obligated to serve that priority firm sale. Exhibit E identifies the power sales contracts covered under this subsection.

Exhibit E would then read:

This a list of existing BPA transmission agreements entered into before the implementation of the Near-Term IAP and will continue to receive Intertie access under the Long-Term IAP.

Utility	BPA Contract No.	Expiration Date
Cowlitz County PUD (Longview Fibre/WAPA)	DE-MS79-86BP91952	12/31/05

Section 2 (b) and Section 3 (a) would also be amended to include Exhibit E with Exhibit C and to change the word contract to agreement.

In addition, we believe that Section 3 (b) should either be deleted or modified to provide for this unique transaction.

We believe these minor changes will clearly provide for continued assured access on the Intertie for a contract that is beneficial for BPA, WAPA, LFC and the ratepayers of Cowlitz County PUD.

Sincerely

Ken Canon

Ken Canon
Managing Director

MONTANA POWER COMPANY

GENERAL OFFICES: 40 EAST BROADWAY, BUTTE, MONTANA 59701 • TELEPHONE (406) 723-5421

ROBERT J. LABRIE
EXECUTIVE VICE PRESIDENT
ENGINEERING AND TECHNOLOGY

Via Federal Express

February 4, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LT IAP3-111
RECEIPT DATE:
FEB 0 8 1988
AREA: DISTRICT
u (OK)
um (OKK)
cc: AL-15

Mr. James J. Jura
Bonneville Power Administration
P.O. Box 3261
1002 Northeast Holladay Street
Portland, Oregon 97208

Dear Mr. Jura:

This letter conveys to you The Montana Power Company's (Montana Power's) comments on the latest Proposed Intertie Access Policy issued on December 15, 1987 by the Bonneville Power Administration. Over the past few years, Montana Power has submitted several comments to BPA regarding various transmission policies. The lack of a long-term transmission policy and BPA's comcomitant refusal to enter into a long-term firm transmission policy have severely frustrated Montana Power's efforts to market its surplus firm power from its Colstrip Unit 4. It is with relief, therefore, that Montana Power looks forward to the expected issuance of a long term policy.

It is an anxious relief, however, because of our grave concern that, when issued, the Intertie Access Policy will not accomplish its essential purpose of allowing nonfederal utilities fair and nondiscriminatory access to the Intertie for use in long-term firm power sale and exchange contracts. The Proposed Policy, if adopted, would preclude such transactions. We understand that alternatives under consideration by BPA would substantially modify some of the more troublesome provisions of the Proposed Policy so as to increase the likelihood that the final Policy will facilitate such transactions. We submit these comments to encourage BPA to adopt provisions to accomplish that purpose. In addition to our primary concerns regarding Assured Delivery, we urge BPA to modify the proposed nonfirm allocation methodology.

The submittal of these comments, however, is not meant to be, and should not be construed as, a waiver or withdrawal of our previous comments. In particular, Montana Power's insistence that it is entitled to Assured Delivery for 210 megawatts or more

is reiterated. Our previous comments demonstrating our entitlement to at least 210 megawatts of Assured Delivery pursuant to § 9(i)(3) of the Northwest Power Act and the Federal Columbia River Transmission System Act are hereby incorporated by reference. In addition, Montana Power also adopts the comments on the Proposed Policy being submitted by Merrill Schultz on behalf of the InterCompany Pool.

Notwithstanding our legal position, Montana Power has indicated its willingness to settle its lawsuit with BPA over our rights under § 9(i)(3) if Montana Power is provided 105 megawatts of Assured Delivery under reasonable terms and conditions. Primarily, two basic provisions of the Proposed Policy must necessarily be revised in order to resolve our lawsuit: those relating to mitigation and those allowing for decrements in Assured Delivery.

1. Mitigation

First, the mitigation concept proposed by BPA is inconsistent with its responsibilities related to its ownership of the federal transmission system. Contrary to the many assertions that BPA's primary obligation is to repay the federal treasury, it was never intended that that obligation be the sole criteria governing the use of the Intertie. Indeed, the enabling legislation indicates that the utilities were to be allowed to use the Intertie by paying an allocated cost of the facilities being used to provide the service.

At issue is the trustworthiness and the credibility of BPA -- issues having a far greater impact on BPA than the question of repayment. Most nonfederal utilities (public and private) trusted and relied upon BPA's commitment to provide nondiscriminatory transmission services to them. The cost for the transmission service was to be sufficient to recover the cost of the transmission facilities being used to provide the service. BPA made that commitment precisely to ward off private participation in, or private construction of, the Intertie. The commitment was largely effective and BPA, on the strength of that commitment, was allowed to gain what is essentially a monopolistic position over the Intertie. The Proposed Policy as issued on December 15, 1987 represents an unfair use of that position to the disadvantage of those utilities which relied on that commitment. It constitutes a major denial by BPA of that commitment.

To the extent, BPA forges ahead with its improper mitigation concept, it must limit and restrict the mitigation to an ascertainable and reasonable level. During the public hearings on the Proposed Policy, many parties expressed concerns about the open-endedness of the proposed mitigation both as to a totally subjective definition of Condition 1 and to the determination of

the "market" at a price. If BPA insists on mitigation, it should do so by simply charging a reasonable fixed surcharge in addition to the cost of the facilities. Montana Power believes that a reasonable level of surcharge should be no more than 50% of the costs of the facilities used.

Specifically, with regard to the latest mitigation proposal distributed earlier this week, Montana Power finds it unacceptable. As noted above, Montana Power is strongly opposed to the mitigation concept in the first place. It ignores BPA responsibilities to the regional utilities as a steward of the regional transmission system. Nevertheless, in an effort to resolve the issue and to bring the Intertie Access Policy to completion, we, and most utilities, are willing to compromise and accept a reasonable mitigation surcharge. It must be reasonable given other transmission costs. We would pay $9.27/kW/year in wheeling charges for the cost of the Intertie facilities at the load factor of our proposed sale to Los Angeles. We are willing to pay an additional surcharge of about $5.00/kW/year, which would bring our transmission costs to about $15.00/kW/year. The latest proposal, however, would levy a surcharge of about $15.00/kW/year -- bringing total transmission costs to about $25.00/kW/year. Such a high transmission cost would preclude Montana Power from making its proposed long term firm power sale in California.

Moreover, the exorbitant surcharge is based on several faulty assumptions. First, the mitigation concept assumes that Montana Power is the only supplier of a firm sale to California utilities. Such is not the case. There are Desert Southwest utilities, Utah, Pacific, Portland General Electric, cogenerators and, of course, some 20,000 megawatts of oil and gas fired self-generation, all of which compete with BPA for the California market. Even if Montana Power does not firm up a California utility's needs, that utility will firm up its resource plan with other suppliers rather than rely on BPA's nonfirm energy. Secondly, the mitigation proposal assumes that BPA could actually make nonfirm sales at the top price increment absent Montana Power's sale -- certainly a questionable assumption. Given the amount of the proposed surcharge, it appears that BPA is merely attempting to discourage competition. Over the past few years, only BPA and the nonfederal utilities with Intertie ownership were able to complete sales to California. The mitigation proposal continues this situation.

It is also inappropriate because the new proposal places a disproportionate mitigation burden on firm sales and seeks to lessen the mitigation for exchanges. "There are three major disadvantages of exchanges to BPA and the Pacific Northwest region in an era of surplus. First, exchanges eliminate access to the heavy load hour markets in the Pacific Southwest without decreasing the overall Pacific Northwest surplus. Second,

exchanges would bring energy back to the Pacific Northwest during light load hours, thereby increasing operational problems in the Pacific Northwest. Third, in addition to serving the market in the Pacific Southwest, seasonal exchanges return energy to the Pacific Northwest during winter, thereby increasing BPA's surplus and the probability of spill on the Federal Columbia River Power System." That was BPA's analysis of exchanges when the first proposed policy was issued. Now, in the latest proposal, apparently purely because of political pressure, BPA has reversed itself and suggests a mitigation surcharge to encourage seasonal exchanges at the expense of Montana Power's firm sale.

It must be remembered that the surcharge is a proxy for operational mitigation during periods of Condition 1. During Condition 1, exchanges and firm sales have the same impact on BPA's access to the market. Thus, it is inappropriate to levy both a capacity and energy surcharge. When dealing with transmission, capacity is the logical basis for any charge because a utility is reserving capacity in the transmission line. Moreover, the existing Intertie tariff already is structured to the disadvantage of high load factor sales. The surcharge proposal adds another significant cost barrier to such sales. Furthermore, given the disadvantages of seasonal exchanges, it is appropriate that exchanges be charged just as heavily as firm sales.

In the calculation of a surcharge, BPA should not assume that Montana Power will be the only Northwest utility entering into a firm sale. The proposed policy provides Assured Delivery for 360 megawatts of average firm surplus, that amount must must be included in the mitigation calculations. (BPA has refused to provide Montana Power with its entire 210 megawatts of Colstrip 4 capacity because it represented a disproportionate share of the 360 megawatts of Assured Delivery being made available. If BPA has now learned that Montana Power is the only utility that wishes to enter into a firm sale, it should be willing to provide Montana Power with 210 megawatts of Assured Delivery -- an amount less than the original amount BPA allocated for such sales).

It is also incumbent that BPA recognize Montana Power's § 9(i)(3) priority to marketing services. Rather than assisting Montana Power, the latest proposal specifically harms Montana Power by levying an excessive surcharge. The priority should excuse Montana Power from mitigation; at a minimum, the priority means that Montana Power must receive equal treatment in terms of a surcharge.

2. Decrements of Assured Delivery

Under the Proposed Policy, there remains a substantial risk for any utility, including Montana Power, to enter into a firm power sale requiring transmission over the Intertie because the

Proposed Policy provides that the amount of Assured Delivery can be reduced even after BPA has entered into a firm transmission contract. The Proposed Policy has two provisions allowing BPA to reduce Assured Delivery. The first provision of concern deals with decrements of Assured Delivery to protect BPA's investments in fish and wildlife measures. The second provision provides that BPA may reduce Assured Delivery if alternative transmission paths are obtained.

In Montana Power's view, it is inappropriate to condition Intertie access on fish and wildlife concerns. Those interests, although important, are given consideration elsewhere, for example, before the Federal Energy Regulatory Commission. In any case, there is no rational basis for denying transmission access to a utility which acquires, voluntarily or otherwise, output of a resource located in a protected area. First, if it is a PURPA mandated acquisition, it is assumed, at least in Montana, that that resource will be used to serve retail customers -- they are the ones to benefit from the resource. Contrary to assertions by the fish and wildlife lobbyists, the Montana Public Service Commission does not set high avoided costs merely so that Montana Power can resell the high-cost PURPA power at a much lower cost on the spot market.

Finally, if Montana Power acquires -- or relicenses -- a major hydroelectric facility, its output will be used to serve Montana Power's customers in Montana. The political and regulatory realities are such that Montana Power simply could not receive the necessary authorization to construct a hydroelectric facility for the purpose of exporting power to California.

Any rational basis for such decrements is even further attenuated in Montana Power's situation. The proposed 105 megawatts of Assured Delivery for Montana Power is being offered pursuant to § 9(i)(3) of the Northwest Power Act. That provision is resource specific -- in Montana Power's case, Colstrip 4, a thermal resource. Because that transmission allocation is specific to that resource, a thermal resource, it is inappropriate to deny it a firm transmission path because of concern over future hydroelectric resources.

Finally, there has been no evidence established to support the Proposed Policy's irrebuttable presumption that the location of a project necessarily means harm to fish and wildlife resources. The Administrator must establish some mechanism to determine the real impact, if any, resulting from the project and whether that impact justifies the harsh penalties proposed or whether some more reasonable actions are appropriate and more effective at protecting fish and wildlife.

A second provision which also precludes a firm transmission contract is the provision which provides that Assured Delivery can be reduced if the utility acquires a new transmission path to the Southwest, an ill-defined term. Again, this provision is unreasonable and is particularly burdensome on a utility, such as Montana Power, which is receiving Assured Delivery for only a part of its total firm surplus. Such a provision effectively precludes Montana Power from marketing the remainder of its surplus in the Southwest. Moreover, legally, if BPA refuses to recognize any responsibility to assist Montana Power in marketing its surplus on the basis that it is "extraregional," then BPA has no right to attempt to control how and where Montana Power markets that power.

Accordingly, Montana Power believes that BPA must make firm its offer to provide transmission for 105 megawatts of Colstrip 4. Notwithstanding other provisions of the Intertie Access Policy, to the extent that Montana Power's 105 megawatts of Assured Delivery is used to market Colstrip 4 power, then the amount of that assured delivery must not be reduced. Such a requirement is consistent with the § 9(i)(3) priority status of Colstrip 4, and is consistent with BPA's insistence that Montana Power's system be bifurcated into both regional and extraregional portions.

3. Nonfirm Allocation

Finally, regarding nonfirm allocation, Montana Power is opposed to the hydro cap method of allocation proposed in the Proposed Policy. Montana Power supports an alternative similar to that under consideration and discussed at the public meetings by which BPA would rely on declarations for allocation purposes but with provisions to protect BPA's marketing of nonfirm power. We believe that BPA should fix its allocation to no more than 65 percent of the Intertie capacity available for nonfirm deliveries under Condition 1.

Sincerely,

Robert J. Labrie

Robert J. Labrie

cc: John A. Cameron
Donna L. Geiger

dof0027ks

LONGVIEW FIBRE COMPANY
MAIN OFFICE AND MILLS LONGVIEW WASHINGTON 98632
1 206 425 1550



RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-112
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
L (OP)

February 4, 1988

Public Involvement Manager
Bonneville Power Administration
P. O. Box 12999
Portland, OR 97212

Re: Long Term Intertie Access Policy - ALP

Dear Ms. Byrnes:

During January 1988, Longview Fibre Company (LFC), under provisions of a contract first written in 1983, delivered 100% of the power to Western Area Power Administration (WAPA) that WAPA had agreed to purchase under that contract. During the same month LFC, under terms of the contract, the related transmission agreement, and the contract (Operating Agreement) addressing Intertie Access, maintained its PF load on BPA and Cowlitz and, further, paid Bonneville approximately $91,000 in transmission charges related to that delivery and sale.

During January 1987 and January 1986, LFC delivered 96.1% and 94.9%, respectively, of the contract amount (reduced because of WAPA's inability to take because of loop flow losses, system outages, or low load conditions in California), but LFC maintained its steady PF load on Cowlitz and Bonneville.

By contrast, in March 1986, because of constraints on the system in California, WAPA was only able to take delivery of 18.7% of the contract amount, yet LFC maintained its full PF load on Cowlitz, hence on Bonneville. Our turbines were appropriately backed down to reflect the conditions in California.

Bonneville in its current draft LTIAP has cited, as in the past, its goal of giving greater planning certainty to utilities in the Northwest and California, and the need to provide more revenue protection for BPA. It is Longview Fibre's view that the contract among WAPA, Cowlitz and LFC does precisely that, as acknowledged in BPA's Record of Decision on earlier versions of IAP.

Although some language differences appear in the current draft when compared with earlier policies or drafts, the thrust of the proposal seems consistent with present policy and should clearly treat the WAPA/Cowlitz/LFC contract as an existing agreement working in support of BPA's policy goals and power marketing efforts.

In BPA's Interim IAP Record of Decision, September 1984, at page 31, in commenting on contracts already existing, the example used is the contract between LFC and Western. BPA's statement at the end of the discussion paragraph is "BPA did not intend to exclude these resources from access."

The existing LFC/WAPA contract has assured access under the current Near Term Intertie Access Policy. Few of those commenting on the Interim IAP draft resubmitted comments on assured access in the Near Term IAP draft because the two documents were so similar it seemed unnecessary. Mr. Coleman, on behalf of WAPA, did urge the timely development of the Long Term IAP.

We are not in the utility industry, and are unfamiliar with the nuances of utility language and contracts. We do have a sense of what constitutes a proper contract, i.e., one that is beneficial to the parties involved. We are hesitant to suggest language changes to a BPA document when others are better able to use the proper language required to achieve the appropriate result.

Early in 1987 WAPA commented on BPA's 1986 draft of the proposed LTIAP and encouraged listing of the Longview Fibre contract in the then-proposed Exhibit C. They argued, as would we, that BPA did grant assured delivery under both the Interim IAP, then the Near Term IAP.

Cowlitz PUD is proposing specific language for inclusion in your Long Term Policy which they feel, as a utility, properly addresses our concerns. We wholeheartedly endorse those comments and proposed changes intended to clarify how Bonneville intends to address the existing contract between WAPA and LFC.

The contract is being administered smoothly under present policy, and that reflects the many discussions all parties have had with BPA staff. We believe it is working well for parties involved -- BPA is assured a continuing PF load just under 50 MW's (including generation for line losses) while our generation is dedicated to the WAPA contract, and wheeling income of a million dollars a year. Cowlitz keeps its steady load, and Western has a predictable and reliable resource.

We hope your final policy will clearly acknowledge the existing contract, grant it assured access, and thereby reaffirm that it is a useful contract to the parties and the region. If this is best accomplished by listing the contract in an Exhibit, we endorse that approach.

Very truly yours,

M. E. Hoehne
Assistant Vice President

ad

cc: John Cameron
Tom Noguchi (Lower Col. Area)
Eric Wong - WAPA

JOSEPH E. BLUM
Director

STATE OF WASHINGTON
DEPARTMENT OF FISHERIES
115 General Administration Building • Olympia, Washington 98504 • (206) 753-6600 • (SCAN) 234-6600

February 3, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-113
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
I (OS)
CC: PJI
I. Normandeau-ALG

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
Post Office Box 12999
Portland, Oregon 97212

Dear Ms. Geiger:

Draft Long-Term Intertie Access Policy

The Washington Department of Fisheries (WDF) has reviewed the Bonneville Power Administration's (BPA) Draft Long-Term Intertie Access Policy (LTIAP), focusing primarily on the policies' fish and wildlife protection provisions. We were pleased to see that BPA has chosen the protected areas concept as a mechanism to deny or permit intertie access for projects in the Columbia River basin. The WDF strongly supports, with minor revisions, the protected area recommendations as developed in the Northwest Power Planning Council's (NPPC) Issue Paper. We also applaud BPA's intent to decrement a utilities transmission allocation should it develop a project or purchase power from a project located in a protected area. We agree that designating protected areas will give regulators and developers a clear message with respect to project siting and will help protect BPA's current fish and wildlife expenditures.

The proposed policy is an excellent beginning. However, we believe BPA needs to broaden its perspective and recognize, as the NPPC did, that its actions have region-wide impacts on hydro development and fish and wildlife resources. Use of the intertie is not restricted to projects or utilities found only in the Columbia River basin. In fact, most new license activity is out-of-basin, principally in Western Washington. Many of the utilities listed in Exhibit B are involved in the development, purchase, or sale of these energy resources. Some of these out-of-basin projects will clearly have adverse impacts to anadromous fish resources if developed as proposed. BPA's protected area designations should recognize this fact and have region-wide application.

Clarification is needed as to whether BPA plans to create its own protected area criteria and list of protected rivers and streams, or build upon the NPPC's actions. We encourage a consistent set of recommendations/designations from BPA and the NPPC. It would be confusing and counterproductive for those organizations to have conflicting or dissimilar protected area designations.

We appreciate the opportunity to comment on the LTIAP and hope that our recommendations will assist BPA in preserving the region's fish and wildlife resources.

Sincerely,

for Joseph R. Blum
Director

JRB:KB:db

cc: NMFS-C. Ross
WDW-I. Howerton
DOE-Sakrison
WEO-E.McGuire

PACIFIC HYDRO

February 3, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-114
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
T (05)

Ms. Donna L. Geiger
Department of Energy
Bonneville Power Administration
Public Involvement
P.O. Box 12999
Portland, Oregon 97212-0999

Dear Ms. Geiger:

Pacific Hydro, Inc. has reviewed the revised draft Long-Term Intertie Access Policy (IAP) for Bonneville Power Administration and appreciates the opportunity to provide comments.

Pacific Hydro, Inc. was formed by independent hydro developers to increase our capability to identify, license and construct small hydroelectric projects. Many of Pacific Hydro's projects are located in the Pacific Northwest. As you are well aware, the Pacific Northwest contains a lot of the nation's potential for new hydroelectric development.

Pacific Hydro,Inc. supports the common concerns of the hydropower industry in maintaining the viability of hydropower as a low-cost, reliable source of domestic renewable energy. Pacific Hydro, Inc. has focused its attention on the increasing burden of government regulation at the federal, state and local levels that threatens to reduce the Pacific Northwest's current hydropower resource and block responsible development of the Pacific Northwest's remaining hydro potential. It is this concern that prompts us to write you concerning the designation of "protected areas" in the 1987 revised draft Long-Term Intertie Access Policy.

The federal hydroelectric licensing process established under the Federal Power Act and administered by the Federal Energy Regulatory Commission (FERC) is a procedure designed to identify environmental, technical and regulatory issues surrounding hydroelectric projects. The statutory authority specified under the Electric Consumers Protection Act addresses the protection of, mitigation of damage to, and enhancement of fish and wildlife (including related spawning grounds and habitat), the protection of recreational opportunities, and the preservation of other aspects of environmental quality in the hydropower license.

1422 130th Avenue N.E. · Bellevue, WA 98005
206-455-0234

Today, FERC in most cases simply lends its approval to state and local resource agency decisions regarding hydroelectric projects. We believe that this evaluation process is sufficient to ensure that all environmental concerns, including those of fish and wildlife interests, are addressed and considered thoroughly in the licensing process.

Pacific Hydro, Inc. is interested in assuring that responsible hydroelectric development takes place. We also support participation by local, state and regional planning agencies in the licensing decisions which affect valuable public resources such as our rivers. However, any meaningful voice in this process must express reasonable views and support them with site-specific data. A blanket prohibition on hydropower development as suggested in the Long-Term IAP makes it impossible for FERC to have adequate information for accepting or rejecting the recommendations of the Bonneville Power Administration.

The concept of "protected areas" presupposes that hydropower development always is incompatible with fisheries resources. The stated objective of BPA's Long-Term IAP is the protection of fish and wildlife, yet the mechanism proposed is the prohibition of hydroelectric development. This approach assumes there is absolutely no technology available on a project-specific or other basis that would make hydro development compatible with existing or "potential" fisheries habitat, when in fact some of the most environmentally appropriate hydroelectric projects can often afford the opportunity to improve existing conditions.

BPA's Long-Term IAP presents a disincentive for the California utilities to sign any contracts for power from the Pacific Northwest, therefore increasing BPA's revenue uncertainty. It also does not stop a project from being built and the power sold locally within the Pacific Northwest Region.

Finally, we are concerned that there is no mention of program analysis under the National Environmental Policy Act (NEPA) or guidelines set by the Council on Environmental Quality (CEQ) to conform with NEPA, to be used as a tool for enlightened decision making. The Electric Consumers Protection Act (ECPA) has not even been given time to be tested to ensure the fulfillment of its goals.

BPA should not address the "protected areas" designaton in their revised draft Long-Term IAP; instead act as an intervenee with FERC.

PACIFIC HYDRO

Pacific Hydro appreciates the opportunity to provide BPA with it's version of the small hydro industry's perspective on this Long-Term IAP and would like to be informed of any action taken by the Council on this subject.

Sincerely,

PACIFIC HYDRO, INC.

B. E. Covin
President

BEC/mc

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #:LT1AP-3-115
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
UM (OKK)
CC: PJI

2/1/88

Dear Kaaren Yeager
Public Involvement Office
Bonneville Power Administration -
P.O. Box 12999
Portland, Or. - 97212

Dear Ms. Yeager -

I strongly support your proposal to protect fish and wildlife in the Intertie Access Policy -

Please request congressmen with power from designated areas both inside and outside the Columbia River Basin to protect coastal streams -

Thank you

Sincerely,

William W. De Boer
PO Box 127
Monarch, MT. 59463

WILLIAM W. DE BOER
PO BOX 127
MONARCH, MT 59463

Idaho Public Utilities Commission
Statehouse
Boise, ID 83720

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #:LT1AP-3-116
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
WL (OWL)
CC: PJI
S. Normandeau - AUG

BONNEVILLE POWER ADMINISTRATION

COMMENTS OF THE IDAHO PUBLIC UTILITIES COMMISSION

ON REVISED DRAFT LONG-TERM INTERTIE ACCESS POLICY

The Idaho Public Utilities Commission has reviewed the Bonneville Power Administration's Revised Draft Long Term Intertie Access Policy and has the following comments.

Fish and Wildlife Protection

Section seven of the revised draft intertie access policy deals with fish and wildlife protection and attempts to limit development of new hydroelectric facilities in protected areas designated by BPA. The purpose of the proposal is to reduce negative impacts on fish and wildlife in general and to reduce negative impacts on fishery enhancement facilities installed by BPA under Section 4(h) of the Northwest Power Planning Act in particular.

BPA admits the proposal would not necessarily stop hydro development in protected areas. FERC may or may not issue licenses to projects in these designated areas. Investor owned utilities (IOUs) have indicated that the possibility of a decrement in assured delivery access to the intertie combined with their obligation under PURPA to purchase generation from small power producers and the absence of any obligation on FERC's part to honor BPA's protected areas policy could significantly reduce their chances of securing firm surplus contracts with the southwest.

We can understand BPA's desire to protect its existing investment and reduce future required investments for fish and wildlife mitigation or enhancement facilities. However, we feel it is only reasonable to expect BPA to commit the resources required to determine actual protected area project impacts. Instead, BPA proposes to shift the cost of implementing this policy to the state PUCs.

We believe it is reasonable to expect all generation projects to mitigate any adverse impacts they may have on the environment, including any damage to fish and wildlife. It is our understanding that this is what now happens during FERC licensing procedures. If BPA determines there will be negative impacts on its fish and wildlife investments from hydro projects it should oppose construction based on its own analysis or submit a mitigation proposal during the existing FERC licensing. If BPA has reason to believe this process is not effective, it should propose a change in procedure at FERC, not propose to shift the responsibility to state PUC's who are ill-equipped to take on such a function.

In answer to the argument that BPA proposes to put state PUCs in an untenable position between two federal agencies, BPA answers that public utilities commissions should be able to solve the conflict between its proposal and utilities' obligations under PURPA by reducing the avoided cost a utility is required to pay for protected area generation. Apparently, the avoided cost would be reduced to make up for the negative revenue effect of the BPA-required reduction in a utility's

assured delivery and formula allocation. It is unreasonable for BPA to put PUCs into the position of reconciling conflicting federal regulations. Also, such a calculation does not address the uncertainties surrounding assured delivery access would prevent utilities from signing long-term contracts for sales to the southwest.

BPA assumes the mitigation cost that it suggests PUC's use to reduce avoided cost rates will result in proposed generating projects not being built in protected areas. BPA's assumption may be wrong. After all, there is no connection between the cost to the utility of losing intertie access and the actual cost to the developer of providing fish mitigation features. But what is more important is that potential contracting utilities in the southwest may believe BPA's assumption is wrong. If they do, utilities' ability to sign contracts will be impaired. The final twist is that once a utility's ability to contract is impaired, by how much can it legitimately lower avoided cost rates? If it cannot hope to sign contracts, the answer is zero and there is no deterrent to construction of a project in a BPA-designated protected area.

Finally, we would like to remind BPA why it was necessary to spend the millions of dollars it did on fishery enhancement facilities. The investment was necessary because the federal government built dams on the Columbia and its tributaries with little regard for native fish populations. We question whether any of the recent investment in fish and wildlife mitigation measures would have had to be made if these

dams had gone through the FERC licensing process to which small independent projects are now subjected.

Mitigation of Lost Revenues during Condition 1

BPA proposes to make available to Northwest utilities 800 MW of assured delivery for sales to the Southwest. Although BPA would use Northwest utilities' firm surpluses to allocate this capacity during normal operations, during spill conditions (called Condition 1) the intertie would be allocated solely on hydro capacity or utility Formula declarations. BPA says this reallocation is necessary to mitigate lost revenues.

It appears that BPA has gone to great lengths to determine its own revenue loss associated with assured delivery allocations but has given little attention to potential IOU revenue loss that could result if assured delivery is unavailable or restricted. If BPA is trying only to make itself whole, it should be willing to make a realistic determination of its lost energy sales at the time and sell energy to utilities to make up the difference between assured delivery amounts and formula allocation amounts at its opportunity cost at the time, not its tariffed rates. If a surcharge is assessed as mitigation for assured delivery contracts over the intertie, it too should reflect a realistic determination of lost BPA revenues during the individual Condition 1.

Utilities Owning or Controlling Southwest Interconnections

BPA states that a utility with transmission access to the Southwest must use its other capacity before receiving any

assured delivery from BPA. We think this would be an impossible condition to enforce and recommend that BPA drop it.

We thank BPA for the opportunity to comment on the Revised Draft Intertie Access Policy. We appreciate the difficult task BPA has in developing and implementing this policy, but we hope BPA will reach a conclusion as soon as possible so that utilities in the region can proceed with their negotiations with utilities in the Southwest.

DATED at Boise, Idaho this 4th day of February, 1988.

DEAN J. MILLER, PRESIDENT

PERRY SWISHER, COMMISSIONER

RALPH NELSON, COMMISSIONER

ATTEST:

MYRNA J. WALTERS, SECRETARY

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this 4th day of February, 1988, served the foregoing COMMENTS OF THE IDAHO PUBLIC UTILITIES COMMISSION ON REVISED DRAFT LONG-TERM INTERTIE ACCESS POLICY by sending a copy thereof via Federal Express, to the following:

Public Involvement Manager
Bonneville Power Administration
P. O. Box 12999
Portland, OR 97212

Laura K Farrer
Secretary

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this 4th day of February, 1988, served the foregoing COMMENTS OF THE IDAHO PUBLIC UTILITIES COMMISSION ON REVISED DRAFT LONG-TERM INTERTIE ACCESS POLICY by sending the original via Federal Express, to the following:

Public Involvement Manager
Bonneville Power Administration
P. O. Box 12999
7th Floor, Federal Building East
905 N.E. 11th Street
Portland, OR 97232

Laura K Farrer
Secretary

PUGET POWER

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-117
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
T (OS)
cc: PIE
I. Romandeau - ALS

February 5, 1988

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Re: Bonneville Power Administration's Revised Draft Long-Term Intertie Access Policy

Dear Ms. Geiger:

In response to Bonneville's notice of December 18, 1987 requesting comments on its revised draft Long-Term Intertie Access Policy ("LTIAP"), Puget Sound Power & Light Company ("Puget") submits the following comments.

I. INTRODUCTION

The draft LTIAP would severely restrict the access of non-Federal power to the Intertie. The draft's restrictions are contrary to BPA's statutory obligations to provide Northwest utilities fair and nondiscriminatory access to available Intertie capacity.

The draft's restrictions appear to be motivated, almost exclusively, by Bonneville's desire to restrict and impose financial penalties on access of other Northwest utilities to the Intertie in order "to provide more revenue protection" for Bonneville. BPA discussion of draft LTIAP at p. 1. However, the Intertie is not (and has never been intended as) a "lever" for the furtherance of such apparent desires. The Intertie was constructed on the basis of a regional consensus and was intended and is required to serve as a carrier for the benefit of not only Bonneville but all Northwest utilities.

The draft LTIAP's improper restrictions include (i) charges which are not based on the cost of Intertie facilities, (ii) artificial limits and conditions on access to Intertie capacity, including limits on the amount of Intertie capacity for specific types of transactions such as seasonal exchanges, (iii) limitations on access to the Intertie based on fish and wildlife determinations, and (iv) "sanctions", to which there are only vague references, for failure to "comply" with the LTIAP.

II. DISCUSSION

A. Bonneville Is Obligated by Statute to Provide Access, on a Fair and Nondiscriminatory Basis, to Available Intertie Transmission Capacity.

Bonneville is required by statute "to make available to all utilities on a fair and nondiscriminatory basis" capacity which is available on its transmission system. (Federal Columbia River Transmission System Act, P.L. 93-454, 16 U.S.C. §§ 838-838k, Section 6.) As discussed below, this requirement is reaffirmed by the Regional Power Act.

Further, Section 6 of the Regional Preference Act (P.L. 88-552, 16 U.S.C. §§ 837-837h) requires that any Intertie capacity which is not required for the transmission of Federal energy "shall be made available as a carrier for transmission of other electric energy . . . ." See also Department of Water and Power of the City of Los Angeles v. Bonneville Power Administration ("LADWP"), 759 F.2d 684, 692 (9th Cir. 1985). BPA clearly is prohibited from refusing to make Intertie capacity available merely because BPA may have power to sell, even to the same customer. As noted in LADWP, the legislative history of the Regional Preference Act explains that BPA

> may not decline to enter into [agreements to transmit other utilities' power] merely because [it] may have energy available for sale to serve the same loads. H.R. Rep. No. 590; 1964 U.S. Code Cong. and Ad. News at 3350.

759 F.2d at 692.[1]

BPA states at page 4 of its discussion of the draft LTIAP that BPA is not willing "to jeopardize its fiscal responsibilities to the Treasury." However, BPA's statutory obligations are to be construed together, and BPA's obligations to repay the Treasury do not excuse BPA from its obligations to provide Intertie capacity on a fair and nondiscriminatory basis at rates based on the cost of the transmission facilities.

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[1] In LADWP, the Court stressed the importance of making Intertie capacity available by noting that BPA "is prohibited from denying access to the Intertie" even to extra-regional utilities within the United States, after federal and other regional power is provided access. 759 F.2d at 695.

("The four BPA enabling statutes must be read in para materia". LADWP, 759 F.2d at 695.) Indeed, there is no basis to conclude that the draft LTIAP is in any way necessitated by BPA's fiscal responsibilities to the Treasury, even if BPA's obligations to provide Intertie access could be ignored (which they cannot). For example, BPA's own detailed analysis of the elasticities of much of BPA firm loads in the region indicates that BPA may increase rates without decreasing revenues from such loads.

The draft LTIAP violates Bonneville's statutory obligations by not only failing to provide access to available Intertie capacity on a fair and nondiscriminatory basis (e.g., by allocating to BPA's determination of a market and restricting access based on fish and wildlife determinations) but also by imposing charges (some of which BPA refers to as "mitigation") for use of the Intertie that are not equitable and are not based on the costs of the Intertie transmission facilities. 16 U.S.C. 838d; 16 U.S.C. 837e. Bonneville is specifically required to base the charges for transmission on an equitable allocation of transmission system costs. Section 10 of the Federal Columbia River Transmission System Act provides that "the recovery of the cost of the Federal transmission system shall be equitably allocated between Federal and non-Federal power utilizing such system." 16 U.S.C. 838h.

Section 9(d) of the Regional Power Act expressly states that the Administrator shall provide transmission for non-Federal power, subject only to the Administrator's contractual obligations, any other obligation under existing law, and available federal transmission capacity. Section 9(d) further indicates that BPA shall not discriminate against utilities on the basis of independent development of resources.

Legislative history with respect to Section 9(d) states as follows:

> Section 9(d) serves two purposes. First, it clarifies that utilities (unlike BPA) are free to dispose of their own non-Federal power (both firm and non-firm) so long as they do not thereby increase BPA's firm power obligations. Second, the subsection requires BPA to provide available services and facilities to such utilities for such sales, and prohibits BPA from discriminating in the provision of such services against any utility or group thereof on the basis of their independent development of resources. Both parts of this subsection therefore preserve the individual and collective independence of utilities and groups of utilities, as well as reaffirming the requirement contained in Section 6 of the Federal Columbia River Transmission System Act that BPA make available on a fair and non-discriminatory basis Federal transmission system capacity in excess of the capacity required for power generated or acquired by the United States.

H.R. Rep. No. 96-976, Pt. II (Interior) at 55, 1980 U.S. Cong. & Admin. News at 6053.

The above-described statutory obligations of BPA must be construed in light of the purposes for which the Intertie was authorized and built. The Intertie is a resource constructed on the basis of regional consensus for use by all of the region's utilities upon payment of an equitable portion of the costs of the Intertie. As recognized by BPA at page 11 of its discussion preceding the draft Near Term Intertie Access Policy:

> Federal transmission facilities were constructed, on the basis of general Pacific Northwest utility consensus, in order to avoid the costly facility duplication which would result if all utilities in the region were to construct their own facilities.

(Emphasis added.) The draft LTIAP's restrictions are inconsistent with the fundamental premise which has historically guided construction and use of the Intertie.

B. The Draft LTIAP's Overall Approach Represents Poor Public Policy.

The draft LTIAP's charges, conditions and other restrictions would prevent reliable, economic access to the Intertie by non-Federal utilities in the region and thus would prevent many of the beneficial transactions which could otherwise be made using the Intertie. These restrictions constitute poor policy and may well lead to otherwise unnecessary duplication of transmission facilities.

If BPA were to restrict or condition Intertie access (e.g., to enhance its revenues or to prevent interference with its "Power Marketing Program"), the detrimental effects would be felt by those who have relied upon the cooperative planning and constructive approach upon which the Intertie was constructed.

This would be patently unfair and can only, in the long run, lead to otherwise unnecessary duplication of transmission facilities and misallocation of resources.

C. The Draft LTIAP Fails to Comply with BPA's Obligations.

1. General

The draft LTIAP states in Section 2 that Bonneville reserves Intertie capacity sufficient to "deliver the full amount of BPA's surplus firm power." Under the statutes described above, Bonneville simply does not have authority to reserve Intertie capacity without regard to its requirement for such capacity due to sales of BPA surplus firm power. Similarly, BPA was never intended to receive, and is not entitled to receive, any preferential or disproportionately large allocation of Intertie capacity for nonfirm transactions. Thus, for example, BPA may not reduce the amount of Intertie capacity available for formula allocation to satisfy an "Administrator's Power Marketing Program" or to "minimize revenue losses associated with actions taken to protect fish in the Columbia River drainage basin." Draft LTIAP Section 5(a).

2. Assured Delivery

The draft LTIAP states that Bonneville will accept until February 1, 1989, initial requests by scheduling utilities in the region for long-term Assured Delivery for firm energy transactions in amounts not to exceed 800 megawatts--divided into Assured Delivery of 361 megawatts for firm power sales and 440 megawatts for seasonal exchanges.

The 800 megawatts of Intertie capacity for Assured Delivery referenced in the draft should not be an absolute limit. Rather, the LTIAP should specify that the amount of capacity made available for Assured Delivery will be reexamined with respect to increasing such amount at any time that requested capacity for Assured Delivery exceeds 800 megawatts. Similarly, the amount of Assured Delivery should not be divided between capacity for firm sales and capacity for seasonal exchanges. Such a division appears to be motivated almost exclusively by the Coordination Agreement matters discussed below which should not be addressed through the LTIAP.

The Assured Delivery amount for firm power sales is proposed to be based on the average firm energy surplus of each of the region's scheduling utilities. The Assured Delivery amount for seasonal exchanges for each of the region's

utilities is proposed to be limited to that utility's summertime surplus firm energy load carrying capability. Those amounts are not yet set forth in Exhibit B to the draft LTIAP.

However, firm access to Bonneville's Intertie capacity should not be limited to average firm energy surplus, summer surplus firm energy load carrying capability or any such criteria. There is no basis statutorily or even conceptually for imposing such limitations on a utility's access to Intertie capacity. Bonneville is in essence attempting to create or adapt a "forecast" of a utility's loads and resources and, on the basis of that forecast, to limit the transactions on the Intertie the utility may undertake. This approach is arbitrary, unfair and discriminatory and accordingly contrary to BPA's obligations. The draft LTIAP approach prevents each utility from making its own determinations of its loads and resources, its contractual constraints, and the risks it will take in offering firm sales or other transactions to the Southwest.

Bonneville should accommodate essentially all seasonal exchanges by Northwest utilities when they are needed (rather than creating an initial "window" until February 1, 1989). To the extent that transmission capacity for seasonal exchanges appears likely to be exhausted, BPA is in effect creating an incentive for "premature" seasonal exchanges by Northwest utilities and thus foreclosing some of its possible near-term opportunities for marketing power within the region. Moreover, the desirability of exchanges will increase rather than decrease as the region moves out of its period of relative surplus. Seasonal exchanges may well delay the need for additional resources and should not be discouraged by BPA. This is particularly relevant insofar as the policy is stated to be a long-term policy.[2]

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[2] The BPA discussion of the draft asserts at page 2 that seasonal exchanges could have a "negative effect" on Northwest coordinated system operations, especially the availability of FELCC in August. The shifting of FELCC to summer months by Northwest utilities engaged in seasonal exchanges with the Southwest, if it occurs, is a matter governed by the contractual rights of parties to the Coordination Agreement. Bonneville should not use the LTIAP to resolve issues which arise under the Coordination Agreement regarding the shifting of energy capability by individual utilities. (In fact, however, a seasonal exchange would increase critical period FELCC.)

The draft LTIAP incorporates broad "mitigation" measures, i.e., conditions, charges and other restrictions to be imposed on a utility in connection with an Assured Delivery contract to "reduce" what BPA refers to as "adverse revenue impacts" due to the existence of the Assured Delivery contract. The "mitigation" measures in the draft LTIAP include the following:

(i) requiring delivery of seasonal exchange return energy at the California-Oregon border ("COB") or Nevada-Oregon Border ("NOB");

(ii) prohibiting "cash out" of seasonal exchanges during Condition 1 or Condition 2 (and limiting the rate of "cash out" during Condition 3);

(iii) requiring the deduction of a utility's Assured Delivery amount from its formula allocation during Condition 1; and

(iv) requiring the purchase from BPA at BPA's "then-applicable rate" of the amount by which the utility's Assured Delivery exceeds its formula allocation during Condition 1.

However, item (iii) above by itself will treat Assured Delivery and formula allocation users on a nondiscriminatory basis. All of the other mitigation measures contained in the draft LTIAP or suggested by BPA as an alternative approach would be unfair and illegally discriminate against Intertie users or would unfairly and illegally serve to exact what is in effect a charge for Intertie transmission which is not based on the costs of the Intertie transmission facilities.[3]

For example, the mitigation measure in item (i) above which requires the delivery of all energy returns to the COB or NOB merely serves to enhance Bonneville's revenues; the added

[3]Application of the mitigation measure described in item (iii) above is nondiscriminatory only if (A) the formula allocation is based on the capacity of the Intertie without reduction for Assured Delivery, (B) the utility with an Assured Delivery sale is permitted to include the resources to provide the power for such sale in its declaration for allocation purposes, and (C) a utility with an Assured Delivery greater than its formula allocation during Condition 1 is allowed to purchase energy from a seller in the region which would use its allocation on the Intertie for the delivery of such energy.

charge will mean that some return energy is unnecessarily generated in the Southwest, even if it could be more economically provided in the Northwest.

The cash-out restriction in item (ii) above will increase BPA's wheeling revenues (and under certain conditions BPA's Intertie capacity); the draft LTIAP requires performance of exchanges which benefit Bonneville but provides no credit for those benefits to Bonneville.

The required purchase of "mitigation energy" from BPA in item (iv) above is unnecessary and unfair. Under the draft LTIAP Bonneville would, for purposes of the Condition 1 formula allocation, determine the size of the Southwest market at a rate selected by Bonneville (which could result in BPA's determination of a very small size); the amount of energy subject to mitigation could be increased significantly, and may even exceed the amount which Bonneville could otherwise have sold. Moreover, a Northwest utility could wind up paying "mitigation" at a rate arbitrarily selected by BPA which might be higher than that at which Bonneville power is simultaneously sold to the Southwest. Such a requirement is unfair and cannot be squared with the clear intent of Sections 2 and 3 of the Regional Preference Act.

The BPA analysis of mitigation measures proposed in the draft LTIAP is seriously flawed and unsupported. Bonneville's analysis, for example, erroneously assumes energy sales are "lost" as a result of seasonal exchanges. In fact, however, exchanges may well not cause a loss of sales, but merely shift sales between seasons. Seasonal exchanges which shift sales between seasons should have no significant impact on Bonneville's revenues, particularly inasmuch as Bonneville seasonally differentiates rates to reflect the difference in costs of providing the power.

As discussed above, BPA is obligated to provide Intertie capacity on a fair basis at rates based on the cost of transmission facilities. "Mitigation" as proposed in the draft LTIAP is contrary to that obligation. In any event, Bonneville has not demonstrated any harm from exchanges by investor-owned utilities and imposition of the proposed mitigation on seasonal exchanges is arbitrary and illegal.

Finally, BPA has failed to present any valid basis for preventing use of Assured Delivery Intertie capacity for "short term" transactions. Particularly to the extent that transmission rates for the amount of Intertie capacity for the

Assured Delivery recover the cost of the transmission facilities which provide such capacity, there can be no basis for BPA's proposed restriction. (BPA is already requiring that a utility's formula allocation be offset to the extent of its Assured Delivery.)

3. Formula Allocation

Under the draft LTIAP, Condition 1 applies where the federal systems is in spill or "in likelihood of spill". The inclusion of the "likelihood" of spill in the trigger for Condition 1 may increase the frequency of Condition 1, thereby unfairly and arbitrarily tending to decrease the Intertie allocation to non-Federal utilities and to increase Condition 1 mitigation.

Under the draft LTIAP, Bonneville will not necessarily allocate the entire amount of available Intertie capacity during Condition 1, but rather will allocate an amount limited by Bonneville's estimate of the market in the Southwest for energy at "BPA's applicable rate". Alternatively, BPA has suggested that, if during Condition 1 BPA is "unable" to sell its entire allocation under certain conditions, BPA's allocation during subsequent days would be increased.

Both the draft LTIAP "allocation to market" approach and the alternative allocation carry-forward approach (i) fail to define what Intertie capacity will be made available and (ii) certainly do not provide non-Federal utilities fair and nondiscriminatory access to the Intertie at transmission rates based on the cost of Intertie facilities. BPA clearly appears to be attempting to decline to transmit other utilities' power because it may have energy available for sale to serve the same loads.

4. Fish and Wildlife Provisions

Access to Intertie capacity cannot and should not be restricted by perceived fish and wildlife impacts of generating resources or based on compliance with licenses, permits, or laws in connection with the development or operation of generating resources. Bonneville has no authority to impose such restrictions on Intertie access.[4] Such restrictions

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[4]Nothing in the applicable statutes authorizes or requires that Intertie access be limited so as to force compliance with the Fish and Wildlife Program, to protect fish and wildlife resources, to prevent impacts on Bonneville fish and wildlife expenditures, or to condition access based on compliance with all applicable licenses, permits, or other provisions of state or federal law. For example, Section 4(h)(11) of the Regional Act is limited to exercise of responsibilities to manage, operate, or regulate hydroelectric facilities on the Columbia River or its tributaries. This simply does not apply to Intertie access. Similarly, Section 4(h)(10) of the Regional Act relates to Bonneville's authority to fund certain fish and wildlife activities (and does not relate to Intertie access). Moreover, Section 4(h)(10), even if assumed for purposes of argument to apply to Intertie access, requires by its very terms that Bonneville's actions thereunder be consistent with (among other items) the purposes of the Regional Act, which include the assurance of an adequate, efficient, economical, and reliable power supply for the region. The provisions of Section 7 of the draft LTIAP fail to consider any such requirement for consistency with this purpose of the Regional Act. See also Section 9 of the Regional Power Act, discussed above.

like other restrictions in the draft LTIAP can only, in the long run, lead to otherwise unnecessary duplication of transmission facilities and misallocation of resources.

Construction and operation of non-Federal hydroelectric facilities are closely and exclusively regulated by the Federal Energy Regulatory Commission which, particularly under the provisions of the recently enacted Electric Consumers Protection Act, must take into account the recommendations of fish and wildlife agencies as well as Indian tribes in discharging its regulatory responsibilities. The Regional Act itself requires FERC to exercise its regulatory responsibilities consistent with the purposes of the Regional Act and other applicable laws to adequately protect, mitigate and enhance fish and wildlife. Attempting to subject non-Federal generating projects to another, potentially differing set of "environmental" requirements established by Bonneville would both frustrate Congress' intention and also conflict with FERC's statutory role of having the ultimate authority on these issues for non-Federal projects. In short, non-Federal parties owning and operating hydroelectric facilities in the Northwest are subject to extensive and far-reaching FERC regulation in the interest of fish and wildlife.

Bonneville erroneously suggests in its narrative accompanying the draft LTIAP that its imposition of restrictions based on fish and wildlife provisions has been recently confirmed by the Ninth Circuit in California Energy Resources Conservation and Development Commission v. Bonneville Power Administration, 831 F.2d 1467 (1987). The reference in that opinion to Section 4(h)(10) of the Regional Power Act was not to the Court's conclusion but rather to a description of Bonneville's argument. The Court limited its decision to the Near Term Policy and did not reach BPA's argument in this regard:

> We deal here with an interim ban. . . Although we do not purport to decide whether an absolute exclusion of new generating sources would be reasonable in a long-term access policy, the present interim exclusion of new generating sources is not facially invalid.

831 F.2d at 1477-78 (emphasis added). The Court has plainly not decided that resources may be denied access on the basis of fish and wildlife considerations under a long-term policy.

The Protected Areas approach should be eliminated from the draft LTIAP. Bonneville should not have the right or obligation to reduce Assured Delivery amounts by the amount of hydroelectric generation, new or existing, in a "Protected Area". (Any application of fish and wildlife restrictions in connection with an existing project during relicensing or otherwise would be particularly troublesome.) The proposed use of a "Protected Area" approach in the region is discussed at some length in our comments dated January 18, 1988 to the Northwest Power Planning Council, a copy of which is attached hereto and incorporated herein by this reference.

Bonneville's proposal to reduce the formula allocation by the full amount of any new hydroelectric capacity in a Protected Area is an arbitrary and severe penalty based on the erroneous assumption that all of the output of the project in the Protected Area would be the power which would otherwise be transmitted on the Intertie. The draft LTIAP also erroneously assumes that all projects in a Protected Area are necessarily so harmful as to justify the severe penalty reflected in the policy. Moreover, with regard to PURPA resources in a Protected Area, a utility may be required to purchase the output, which would result in Intertie access being reduced for reasons beyond the utility's control.

In short, Bonneville has no authority to impose the fish and wildlife protection measures incorporated in Section 7 of the draft LTIAP as conditions to Intertie access. Nothing in the applicable statutes authorizes or requires that Intertie access be limited so as to force compliance with the Fish and Wildlife Program or to protect fish and wildlife resources.

5. Other Enforcement Provisions

The draft LTIAP states in very general terms that, if the access policy is not being met, Bonneville will advise the utility of the noncompliance and actions to be taken to effect compliance. If noncompliance is not corrected within a reasonable period, the draft contemplates that Bonneville may impose an "appropriate sanction," including reduction of Assured Delivery or refusal to accept schedules. Thus, for example, Assured Delivery under a long-term contract with Bonneville may be subject to interruption for failure to comply with a vague LTIAP. The provisions relating to sanctions are vague, ill-defined, and fail to establish any ascertainable standard. As such, they serve to preclude reliable transmission access, are clearly illegal, and must be deleted. Indeed, the uncertaintly created by this provision helps to illustrate why BPA should provide in its policy for contracts for Intertie access rather than expect utilities to rely merely on a BPA policy.

6. Other Matters

(a) Vagueness. The draft LTIAP is vague and incomplete in many respects. For example, the term "Administrator's Power Marketing Program" is so vaguely and broadly defined in the draft LTIAP as to be meaningless. As noted by one federal court, "the establishment of written, objective, and ascertainable standards is an elementary and intrinsic part of due process." Baker-Chaput v. Cammett, 406 F. Supp. 1134, 1140 (D.N.H. 1976). BPA's draft LTIAP fails to include a "written, objective, and ascertainable" policy.

(b) Other Transmission Paths. The draft LTIAP's requirement that utilities use other transmission paths to the "Southwest" before receiving any Assured Delivery penalizes the development of transmission and unlawfully discriminates against utilities owning such transmission. Also, it is not clear that Bonneville in applying the requirement would recognize that transmission access to one Southwest utility may not be usable to reach another Southwest utility.

(c) Definition of "Qualified Northwest Resources". The draft LTIAP's definition of "Qualified Northwest Resources" is too narrow and vague. For example, there should be no "test" applied to new resources with respect to whether they are needed to support Assured Delivery contracts.

(d) Regional Preference. As a number of parties have repeatedly stated, BPA's draft LTIAP is driven by BPA's own marketing aspirations. Such marketing is being conducted in a patently unlawful manner by BPA, in clear disregard of the Northwest non-Federal utilities' "first call" on power from the federal system under the requirements of regional preference set out in P.L. 88-552 and numerous bilateral contracts with BPA. A number of these requirements are discussed in a December 30, 1982 letter (with enclosures) to BPA from Puget, a copy of which is attached hereto and which is incorporated herein by this reference. This December 30, 1982 letter includes a fairly detailed discussion of the importance and value of firm and reliable Intertie access in light of regional preference requirements.

III. CONCLUSION

The cumulative effect of the draft LTIAP is to deny Northwest utilities access to the Intertie. As described above, the aim of this restrictive access policy--to provide greater revenue protection for Bonneville--appears to be based on a mischaracterization of the purposes for which the Intertie was constructed. The draft LTIAP violates Bonneville's statutory obligations to provide Northwest utilities access to available Intertie capacity on a fair and nondiscriminatory basis and at rates based on the cost of the transmission facilities.

We welcome the opportunity to discuss these issues in more detail as part of the public comment process on the draft LTIAP.

Very truly yours,

PUGET SOUND POWER & LIGHT COMPANY

By Robert K. Wyse

Its Senior Vice President

0506V

PUGET POWER

Attachment
LTIAP-3-117

January 15, 1988

Morris L. Brusett, Chairman
Northwest Power Planning Council
850 S.W. Broadway, Suite 1100
Portland, OR 97205

Dear Chairman Brusett:

Attached are the comments of Puget Sound Power & Light Company on the Staff Issue Paper, "Protected Areas Designations," dated October 8, 1987. These comments supplement and are in addition to those presented orally at the Council's meeting on January 14, 1988 at the Council's offices.

Puget Power appreciates the opportunity to submit these comments on this subject, which is so important for the region. Should members of the Council desire additional information or have questions concerning these comments, we would be pleased to meet with the Council or staff or respond to their written inquiries.

Very truly yours,

W. J. Finnegan

W. J. Finnegan
Vice President - Engineering

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Enclosures
cc: Council Members

Attachment
LTIAP 3-117

PUGET POWER COMMENTS
CONCERNING THE NORTHWEST POWER PLANNING COUNCIL
STAFF ISSUE PAPER: PROTECTED AREA DESIGNATIONS

Puget Power appreciates the opportunity to submit comments on the Northwest Power Planning Council staff issue paper concerning protected area designations. Puget Power believes that the Council should not enter rulemaking on the current proposal because it is fundamentally flawed. The proposed designations represent blanket preclusion where case-by-case balancing should be undertaken. They are also beyond the Council's authority in areas outside the Columbia River Basin.

I. The Protected Areas Proposal Is Unnecessary and Represents a Departure From the Council's Planning Mandate.

The Council staff proposal contemplates the summary withdrawal of a huge number of stream reaches from any potential hydroelectric development. This withdrawal is based only on general fish and wildlife information. No consideration was given to site-specific proposals and mitigation measures which might be undertaken to benefit fish and wildlife populations. The result is that the proposal may unnecessarily preclude projects that could potentially benefit both fish and wildlife and power production goals. This result demonstrates a lack of effective planning. The proposal is also unnecessary because existing protections ensure that fish and wildlife values will be adequately taken into account in the licensing process. The Council could be more effective in its planning role if it used the information generated in evaluating stream reaches in the context of the existing Federal Energy Regulatory Commission ("FERC") licensing process.

A. The Proposal's Blanket Approach to Stream Designations Is Poor Planning.

Effective evaluation of potential hydroelectric development requires a great deal of specific data concerning both the proposal and existing site conditions. Planning for potential development should take the need for site-specific data into account by withholding judgment on particular proposals until a case-by-case evaluation can be completed. The protected areas proposal is the antithesis of this kind of rational planning effort. By simply zoning stream reaches based on, for example, the existence of anadromous fish, the proposal precludes a balanced approach to resource development.

The overly general approach taken by the proposal cannot withstand scrutiny from a policy standpoint because it makes no effort to determine whether a particular development on a particular stream reach would, in fact, damage fish and wildlife. This is unfortunate because in some instances hydro developments can benefit fish and wildlife as well as provide a cost-effective renewable energy resource of benefit to the region's ratepayers.

B. Protected Area Designation Is Unnecessary.

The staff proposal is unnecessary because existing protections for fish and wildlife ensure that the current FERC

licensing process provides adequate protection. This process includes the requirements of the Electric Consumers Protection Act ("ECPA") Pub. L. No. 99-495, 1986 (codified at 16 U.S.C. §§ 797-825), which states that the protection, mitigation and enhancement of fish and wildlife be given "equitable treatment" in conjunction with the water and power development purposes of the Federal Power Act, 16 U.S.C. § 791a et seq. ("FPA").

In giving fish and wildlife concerns "equitable treatment" in the licensing process, the FERC must rely to a certain extent on the recommendations of federal and state fish and wildlife agencies. This reliance does not result in agency veto power because the licensing decision is still ultimately the FERC's. However, the changes brought about by ECPA, and the FERC regulations implementing those changes, give the fish and wildlife agencies a powerful voice in the licensing process. Developers are required to engage in a very extensive consultation process with each fish and wildlife agency, perform studies required by the agencies and the FERC, and negotiate appropriate mitigation and protection and/or enhancement. See 18 C.F.R. § 4.38. The FERC bases its ultimate licensing conditions on those recommended by the agencies, including such conditions in the license unless the FERC finds them contrary to the purposes of the FPA.

These protections assure that the Council's goal of protecting the ratepayer investment in improved fish and

wildlife resources can be met without the overbroad designation of protected areas. The Council can maximize its effectiveness in meeting its goals by using its data in the FERC licensing process. The FERC must consider and evaluate many other factors, including economical power, water supply, flood control and recreation, as well as fish and wildlife values in making its decision regarding whether a particular project is in the public interest. Indiscriminately proclaiming half the stream reaches in the region to be protected, based only on fisheries considerations, risks having the FERC ignore the Council's efforts. The Council would be more effective if it intervened in FERC proceedings to present data concerning areas within the basin that are truly critical to meeting the Council's Fish and Wildlife Program goals. Council intervention in FERC proceedings concerning those few river reaches would allow the presentation of the technical data necessary to show the importance of a particular habitat area to fish and wildlife.

Intervention in FERC proceedings is a proper role for the Council as is recognized in the Fish and Wildlife Program. See Columbia River Basin Fish and Wildlife Program, Section 1102. Puget Power urges the Council to continue working in the context of the existing FERC licensing process where an impact can be made in a process designed by law to weigh diverse interests, rather than taking the first steps in an attempt to

circumvent that process by entering rulemaking on the current protected areas proposal.

II. The Council Has No Authority to Establish Protected Areas Outside the Columbia River Basin.

The Northwest Power Act gives the Council the authority to establish and maintain an Energy Plan for the entire region, and a Fish and Wildlife Program for the Columbia River Basin. However, neither the Energy Plan nor the Fish and Wildlife Program authorizes the designation of protected areas outside the Columbia River Basin.

A. The Fish and Wildlife Program Applies Only to the Columbia River Basin.

The Fish and Wildlife Program is meant to contain detailed planning measures related to the fish and wildlife populations of the Columbia River Basin. These detailed measures are, however, expressly limited to the Columbia River Basin:

> This subsection [establishing the Program] shall be applicable solely to fish and wildlife, including related spawning grounds and habitat, located on the Columbia River and its tributaries. Nothing in this subsection shall alter, modify, or affect in any way the laws applicable to rivers or river systems, including electric power facilities related thereto, other than the Columbia River and its tributaries, or affect the rights and obligations of any agency, entity, or person under such laws.

16 U.S.C. § 839b(h)(1)(b) (emphasis added).

This provision establishes clear limits on the extent of Program measures. Congress understood that the Program was intended only to address the unique problems associated with the large number of interrelated hydroelectric developments on

the Columbia River Basin. This is evident from the legislative history concerning section 4(h):

> This subparagraph [section 4(h)(1)(A)] requires the Council to develop a unified program for the protection, mitigation, and enhancement of fish and wildlife on the Columbia River and its tributaries. This provision recognizes that the history, problems and opportunities of the Columbia River system are unique, making such a program suitable and desirable for this particular river system but not for other rivers or systems in or out of the Pacific Northwest region. The provision therefore contains a non-applicability clause to ensure that the type of program contemplated by this legislation is not a precedent for other areas.

H.R. Rep. No. 976, 96th Cong., 2d Sess. pt. II at 43 (1980) (Interior Committee Report) (emphasis added).

The Act and its legislative history are thus explicit on this point: The Fish and Wildlife Program measures are not to apply outside of the Columbia River Basin. Thus, the Council has no authority to use the Fish and Wildlife Program as a justification for designating protected areas outside of the Basin.

B. The Power Planning Provision Does Not Authorize the Designation of Protected Areas.

The staff issue paper attempts an end run around the limitations on the Fish and Wildlife Program by claiming the authority to designate protected areas pursuant to the Regional Power Plan. The Council's authority to develop a Regional Power Plan is established in section 4(d)(1) of the Northwest Power Act. 16 U.S.C. § 839b(d)(1). The Plan is required to establish a "general scheme for implementing conservation

measures and developing resources... ." 16 U.S.C. § 839b(e)(2) (emphasis added). In developing this general scheme the Council must give "due consideration" to the "protection, mitigation, and enhancement of fish and wildlife and related spawning grounds and habitat... ." Id.

A comparison between the Fish and Wildlife Program measures authorized by section 4(h) and the requirement of "due consideration" in section 4(e)(2) reveals that Congress intended to limit detailed fish and wildlife initiatives to the Columbia River Basin Fish and Wildlife Program. Section 4(h) was designed to address the unique problems of the Columbia River Basin and, as such, authorized detailed fish and wildlife planning measures. In comparison, section 4(e)(2) specifies the types of considerations the Council must take into account when planning for conservation programs and in the acquisition of new power resources by the Bonneville Power Administration. "Due consideration" in this context is a procedural requirement. As such, the Council can only take the steps necessary to ensure that fish and wildlife issues are considered in the development of conservation programs and in the acquisition of resources. The adoption of protected areas goes well beyond this procedural requirement by imposing a preemptive zoning scheme on rivers throughout the region. This foreclosure of other uses is not authorized by the "due consideration" requirement of section 4(e)(2).

Elementary principles of statutory construction demonstrate that the staff's effort to expand the Fish and Wildlife Program beyond the Columbia River could not withstand legal challenge. Specific statutory provisions govern general provisions. The Fish and Wildlife Program is the express, specific authority for the Council's role in fish protection. The Power Plan, of which the Program is a part, calls for recognition of fish and wildlife, but the Plan's operative features are wholly lacking in specificity as to fish and wildlife. In addition, the staff's proposal presents an illogical reading of the statutory scheme by calling for the Plan to do what its internal Program expressly cannot do. Courts refuse to allow statutory interpretations that present such glaring inconsistencies.

C. The Proposal Precludes the Balancing of Factors the FERC Must Undertake Under the Federal Power Act.

Section 10(a) of the FPA mandates that the FERC consider and balance many factors in the licensing process to determine whether, in the judgment of the FERC, a project is best adapted to a comprehensive plan for the waterway. Factors the FERC must consider and balance include whether the proposal provides for economical power, irrigation, water supply, recreation, flood control and other beneficial uses along with the protection, mitigation and enhancement of fish and wildlife.

The staff proposal conflicts with the FERC's balancing mandate by encouraging the FERC to ignore every factor except fish and wildlife in protected areas. The FERC may disregard

this attempt at one-dimensional resource allocation. A proposal that considers only fish and wildlife values in the allocation of a resource is not consistent with the balancing of resource values required by the FPA.

III. Conclusion.

The Council should not enter rulemaking on the current staff protected areas proposal. The proposal is fundamentally flawed because it attempts to extend the Regional Power Plan beyond its legally authorized bounds. It turns statutory construction on its head by arguing that what is expressly precluded under the program designed for fish and wildlife can nevertheless be done under the "general scheme" which is expressly limited to "due consideration" of fish and wildlife. It is also unnecessary and is poor planning because it attempts to preclude case-by-case evaluation of individual project proposals that may be of benefit to both regional ratepayers and fish and wildlife.

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Attachment
LTIAP-3-117

December 30, 1982

Ms. Donna L. Geiger
Bonneville Power Administration
Public Involvement Coordinator
P.O. Box 12999
Portland, Oregon 97212

Re: Marketing of Surplus Firm Power

Dear Ms. Geiger:

This is in response to the request for recommendations dated November 29, 1982, regarding marketing of BPA surplus power. We are attorneys for Puget Sound Power & Light Company and are submitting these comments on its behalf as well as on behalf of Utah Power & Light Company, Idaho Power Company and The Montana Power Company. There are at least two important issues to be addressed: (i) the amount of available BPA surplus power and (ii) the constraints applicable to sales of such power.

In determining the amount of available BPA surplus power, it must be noted that the region's economy in general and BPA's firm regional loads in particular have been significantly depressed. BPA's firm regional loads in future years could well be significantly larger than projected in the request for recommendation. This should be taken into account in determining the amount of surplus sales. BPA should not allow its ability to serve its firm regional loads to be endangered by surplus sales. (BPA's rates should to the degree possible accurately reflect its ability or inability to dispose of any surplus power. To the extent there is no demand within applicable market and legal constraints for BPA's surplus, that fact should be reflected in BPA's rate case.)

The method by which BPA surplus power is made available for sale must of course comply with applicable legal constraints, a number of which are discussed below.

Public Law 88-552 ("Northwest Preference Act") was enacted to give the Northwest preference to the economic benefits of low-cost federal hydroelectric power. The Northwest Preference Act was an integral factor in the construction of the Pacific Northwest/Pacific Southwest tie lines and reflects the basic policy determination that the customers of Northwest utilities should be served with low-cost federal hydroelectric power in preference to BPA sales outside the Northwest.

Sale of such power to Northwest utilities tends to make their thermal resources available outside the region and to provide an economic benefit outside the region, by allowing oil and natural gas-fired generation in the Southwest to be displaced by more economic coal-fired generation in the Northwest. Thus, the customers of Northwest utilities benefit from the hydroelectric power from the federal dams placed in the Northwest, and yet the customers of utilities outside the Northwest also benefit through purchases of displaced generation.

Under the Northwest Preference Act, only surplus hydroelectric energy or capacity for which there is no demand in the Northwest at any established rate may be sold by BPA outside the Northwest. BPA may not deliver hydroelectric energy outside the Northwest whenever it can reasonably be foreseen that such delivery would impair its ability to meet (either at or after the time of such delivery) the energy requirements of any Pacific Northwest customer. Bonneville may thus only sell outside the Northwest hydroelectric energy which would otherwise be wasted and is in effect precluded by statute from selling hydroelectric energy outside the Northwest as firm energy.

As discussed above, BPA may not deliver hydroelectric energy outside the Northwest whenever it can reasonably be foreseen that such delivery would impair its ability to meet "the energy requirements of any Pacific Northwest customer." This term is very broadly defined to generally include the full requirements for electric energy of a Northwest utility in excess of the hydroelectric energy available for its own use from its generating plants in the Pacific Northwest (together

with additional energy available under then existing contracts which has an incremental cost lower than the BPA rate or which the utility is required to accept). The Northwest Preference Act thus contemplates that BPA power will not be sold outside the Northwest unless and until the customers of Northwest utilities are being served with power obtained at essentially a hydroelectric rate.

The Northwest Preference Act provides that BPA power is surplus only if there is no market or demand in the Pacific Northwest "at any established rate," which is a broad term ensuring that the lowest established rate is available for Pacific Northwest customers. Bonneville may not dictate which of the established rates must be used. Also, power may not be "blended" or classified in a manner which has the effect of making purchase by Northwest utilities uneconomic at any established rate. The Northwest Preference Act was intended to preserve the identity of hydroelectric power, and it is our view that "blending" defeats the intent and purpose of that Act. For example, hydroelectric power may not be blended with other power to achieve a rate which is higher than another established rate but which makes the "blend" uneconomic for Northwest utilities. Further, surplus power may not be offered in minimum blocks (or for a minimum duration or under terms or conditions) which are not part of the established rates established under the general ratemaking authority of Bonneville and filed and approved by FERC, so as to make the purchase uneconomic to Northwest utilities.

With regard to sales outside the Northwest, the Northwest Preference Act also provides a number of additional restrictions. For example, specific "subject to recall" and "provisional" delivery provisions are required.

As required by the Northwest Preference Act itself, the provisions of that Act are incorporated in a number of contracts with various Northwest utilities. This provides contractually for preservation of the restrictions embodied in the Northwest Preference Act, notwithstanding a subsequent statutory amendment.

The foregoing analysis of the Northwest Preference Act is consistent with BPA's historical practice. As Mr. Lawrence Dean testified during the 1981 BPA rate hearing, BPA nonfirm energy always was sold under the former "share of the savings"

nonfirm rate, so as to displace any operating Northwest thermal plant, even if a higher price was available from outside the Northwest. He further testified that he could never recall energy being sold to the Southwest by BPA if there was a displaceable Northwest thermal resource and a willingness of a Northwest utility to pay any price for nonfirm energy that was permitted by the BPA tariff. Ms. Shirley Melton further testified that the BPA policies with respect to Northwest preference under the Northwest Preference Act would be continued as in the past. (The relevant transcript pages are attached hereto.)

The Regional Power Act, Public Law 96-501, did not eliminate the clear Northwest preference afforded hydroelectric power by the Northwest Preference Act but rather imposed a similar and additional restriction with respect to sales of all other BPA power outside the region. For example, BPA is in effect precluded by statute from selling energy outside the region as firm energy and BPA may sell outside the region only energy which would otherwise be wasted. Section 9(c) of the Regional Power Act did not change the protections afforded to hydroelectric power by the Northwest Preference Act.

In summary, it is consistent with long-established BPA policy and with legal and contractual constraints that BPA surplus power be sold outside the region only after displacement of the thermal generating facilities of Northwest utilities, e.g., after such Northwest utilities have purchased an amount of power equal to that which would have been generated by their thermal facilities or is in fact being generated by such thermal facilities and sold elsewhere.

In order to ensure that this sound, long-standing and legally mandated policy can provide the maximum benefits to all concerned, both inside and outside the region, it is important that (i) BPA surplus power be available to displace the thermal generation of nonfederal Northwest utilities (at a price which will allow such displacement) and (ii) the nonfederal Northwest utilities be afforded firm and reliable access to the federal transmission lines connecting with other regions. Only in this manner can the benefits of this displaced thermal power in the Northwest be provided on a reasonable basis outside the region.

This letter has set forth a number of factors which we believe Bonneville should consider in disposing of its surplus power but is not intended to be an exhaustive list of the legal

or contractual requirements with which Bonneville must comply in disposing of surplus power under various circumstances.

Very truly yours,

PERKINS, COIE, STONE,
OLSEN & WILLIAMS

By William S. Weaver
William S. Weaver
Attorneys for Puget Sound Power & Light Company

cc w/enclosure
Robert W. Gordon, Esq.
Paul Jauregui, Esq.
James Walsh, Esq.

OFFICIAL REPORT OF PROCEEDINGS

Attachment
LTIAD-3-117

BEFORE THE

UNITED STATES DEPARTMENT OF ENERGY

BONNEVILLE POWER ADMINISTRATION

PORTLAND, OREGON

DOCKET NO.

IN THE MATTER OF:

PROPOSED TRANSMISSION RATE ADJUSTMENT

AND

PROPOSED WHOLESALE POWER RATE ADJUSTMENT

PLACE: Portland, Oregon

DATE: April 2, 1981

VOLUME X

PAGES: 1543-1746

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implementation of Public Law 8552?

MR. DEAN: Well, I think I've answered that before in the clarifying questions, and that is that this method of analyzing revenues from secondary sales is an assumption made for purposes of developing rates, and that Bonneville's secondary marketing policy under the proposed NF-1 rate -- the procedures for using that are not defined at this time.

Q Prior -- is the current method of marketing non-firm energy by Bonneville, Mr. Dean, based on a share the savings approach?

MR. DEAN: The rate that the NF-1 will supersede is, yes.

Q And in applying this share of the savings rate, has energy always been sold first to Northwest utilities who had displaceable resources, even if a higher price was available from the Southwest?

MR. DEAN: Yes.

Q And is it correct that this energy has always been sold to displace any Northwest thermal plant before any Southwest sale, even if a higher price were available in the Southwest?

MR. DEAN: Yes, any displaceable Northwest thermal plant.

Q Can you ever recall a time at which Bonneville has sold hydroelectric energy to the Southwest, if there was a

displaceal : Northwest thermal resou. e and a willingness of a Northwest utility to pay any price for non-firm energy that was permitted by the BPA tariff?

MR. DEAN: No, I can't recall any at this time, and I doubt if there is any, but subject to my ability to recolle it.

Q Is it -- Ms. Melton, is it the policy of BPA to ser the DSI first quartile before or after displacing high cost Northwest resources?

MS. MELTON: Are you talking about non-Federal high cost Northwest resources?

Q Let's start with Federal, before displacing high cos Federal resources.

MS. MELTON: I'm taking a moment to collect my thoughts because this is a difficult subject to address for me There are a lot of complications involved in this particular policy and I want to make sure that I state it accurately. Bonneville will displace any of its own high cost resources prior to serving the top quartile, if, in fact, the operating cost of those resources are higher than the revenues that it would receive from serving the top quartile.

Q So it will displace high cost recourse -- Bonneville will displace high cost Federal resources before making sales to the DSI for the first quartile?

MS. MELTON: With that limitation that I just indi-

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Portland, Oregon - Honolulu, Hawaii

FICIAL REPORT OF PROCEEL GS

Attachment
LTIAP 3-117

BEFORE THE
UNITED STATES DEPARTMENT OF ENERGY
BONNEVILLE POWER ADMINISTRATION
PORTLAND, OREGON

DOCKET NO.

IN THE MATTER OF:

PROPOSED TRANSMISSION RATE ADJUSTMENT

AND

PROPOSED WHOLESALE POWER RATE ADJUSTMENT

PLACE: Portland, Oregon

DATE: April 4, 1981

VOLUME XII

PAGES: 2002 - 2249

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MS. MELTON: In response to that question, I'd like to point out that when I'm talking about a non-firm energy marketing policy, I'm talking about the marketing of non-firm energy after serving the top quartile of the DSI load as provided for under the Act. So if your question relates to how we marketed non-firm energy to serve the top quartile prior to the Act, in that respect the policy wouldn't apply any more to serving the top quartile as it has historically.

Q Will the Administrator continue his policy of allotting the investor-owned utilities an amount of secondary equal to that furnished to the first quartile?

MS. MELTON: I don't know at this point how the policy will be interpretted in that particular area.

Q And I believe yesterday with Mr. -- well, let me ask first, I also understand that policies relating to Northwes preference under Public Law 88-552 also will be continued as in the past.

MS. MELTON: That's my understanding, yes.

Q And am I correct in my understanding from Mr. Dean that the past implementation of Bonneville has always been to sell non-firm energy to displace any Northwest thermal plant before any Southwest sale if there is a willingness of the Northwest utility to pay any price for the non-firm energy permitted by the BPA tariff?

MR. DEAN: Is that directed at me?

BILL'S RECORDING SERVICE

Southwest Washington Anglers

Steve Wille
Natural Resources Director

4 February 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-118
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT

Double logged
PIP-1-98

Ms. Donna Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

CC: PJI
I Nomandeau - ALG

Re: Bonneville Fish and Wildlife Programs

Dear Ms. Geiger:

The Southwest Washington Anglers would like to go on record that we adamantly support full funding of all efforts to restore Columbia River Basin fish and wildlife populations damaged by hydroelectric power development, and strongly urge you to include adequate funding for these programs in your rate case discussions. We also urge Bonneville to adopt and implement the Northwest Power Planning Council's (Council) proposed comprehensive Protected Area Program to support fish and wildlife resources in its Long-Term Intertie Access Policy.

The future of the regions fish and wildlife require comprehensive and responsible resource planning to overcome misguided past hydropower practices. As directed by Congress, the Council has developed a program to protect, mitigate and enhance the Columbia Basin's fish and wildlife resources. Under Section 4 (h)(11)(A) of the Northwest Power Act of 1980 the Bonneville Power Administration, among other federal agencies, is directed by Congress to exercise their responsibilities in a manner consistent with the purposes of the Act and other applicable laws to provide equitable treatment for fish and wildlife. In addition, in Section 4 (h)(10)(A), Congress has directed Bonneville to use the Bonneville fund and all of the agency's legal authorities "to protect, mitigate, and enhance fish and wildlife to the extent affected by the development and operation of any hydroelectric project on the Columbia River and its tributaries in a manner consistent with the program adopted by the Council".

The next five years of the adopted Fish and Wildlife Program are critical if the Council is to attain its interim goal of doubling the size of existing fish runs. Congress has clearly mandated that adequate funding must be made available from Bonneville to implement the Council's fish and wildlife programs. This includes funding for major capital expenditures planned to increase production, provide habitat protection and improve fish passage at dams. The agency is effectively shirking its responsibilities and hiding behind a budgetary mask by asking Northwest ratepayers to choose between lower rates or cutting fish and wildlife programs.

Adoption of the Council's proposed Protected Areas Program will safeguard past ratepayer investments by discouraging future hydroelectric projects built in sensitive areas by speculators to take advantage of southwest markets, at the expense of Northwest salmon and steelhead. We believe its adoption would

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be a positive step forward to stop fish damaging projects, rather than attempting to mitigate later for unacceptable kills with expensive enhancement strategies. We ask that the final draft of the intertie-access statement require compliance with Protected Area designations throughout the Northwest, not just those in the Columbia River Basin. A proliferation of new dams on coastal streams could adversely impact wildlife, and resident and anadromous fish. Reduced access and production in these areas would increase ocean harvest pressure on all stocks, including Columbia Basin runs.

In addition, we ask that Bonneville consider holding some of their future public meetings during the evening when public comment is requested. It is often difficult for all-volunteer sport groups such as ours, who are interested in proposed future programs, to supply representation and contribute input during meetings held during the daytime.

In conclusion, the Southwest Washington Anglers support full funding of efforts to restore Columbia River Basin fish and wildlife resources. We also urge the adoption of the proposed Protected Area Program, especially in conjunction with the Intertie Access Policy, to protect the valuable natural resources of the Northwest.

Sincerely,
Southwest Washington Anglers

Stephen A. Wille

cc: Sen. B. Adams
Sen. D. Evans
Rep. D. Bonker
Rep. J. Dingell
Rep. M. Udall
R. Applegate, NPPC

ICP INTERCOMPANY POOL
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February 1, 1988

Ms. Teresa Cunningham Byrnes
Acting Public Involvement Manager
Bonneville Power Administration
P. O. Box 12999
Portland, OR 97212

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-119
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
All

Re: Revised Draft Long-Term
Intertie Access Policy

Dear Ms. Byrnes:

This is in response to Bonneville's inviting comments on its Revised Draft--Long-Term Intertie Access Policy, December 15, 1987. As I said, prematurely, in my latest set of written comments, January 14, 1987, "If Bonneville's procedure follows the published schedule, these will be the last in a voluminous and consistent series of ICP comments, which began in the summer of 1983." I hope that statement is true, this time.

Since the Draft was issued, Bonneville has held a number of public meetings on the subject, and there have also been several private consultations. During these discussions, there have been indications that Bonneville might modify some aspects of the Draft in a direction to lessen, or eliminate, certain ICP objections to it. However, without an official, written revision of the Draft reflecting such changes on the table, we must respond herein to the last published draft, which is the one dated December 15, 1987. We hope Bonneville understands this and does not interpret any of the following as repudiations of interim understandings, if any.

In addition, Bonneville representatives have urged that commenters not simply list their complaints about the Draft, but that they include their proposals for desirable substitute provisions. We have always agreed with that approach and have consistently suggested appropriate language to replace that with which we disagreed; I draw your attention to the complete alternative draft LTIAP which we included with our January 14, 1987, comments. We still support the principles of that proposal, and a copy is attached for your reference.

GENERAL

In the consistent series of comments which the ICP has produced since Bonneville began formulating its Intertie Access Policy (IAP) in 1983, we have proposed a simple, clear IAP based on the statutes, understandings and Bonneville commitments that are the foundation of the Intertie. We have taken pains to avoid any proposal which would actually, or be perceived to, usurp Bonneville's rightful priorities to the use of the facilities. We have repeatedly cited the myriad references expressing the intent of both Bonneville and Congress regarding Northwest non-Federal utility access to the Intertie. In its various responses, Bonneville has never rebutted our conclusions; it has simply ignored them.

I won't repeat those citations here. In summary, faced with numerous competing Federal and non-Federal proposals to build or participate in the proposed Intertie, Bonneville advocated Federal construction and control, coupled with a commitment to provide open and non-discriminatory access for non-Federal firm transactions after Bonneville's firm needs were satisfied. Access to the capability available for non-firm transactions would be allocated among all Northwest utilities, including Bonneville, in proportion to their respective amounts of surplus energy. Bonneville's stated goals were to avoid monopoly control of the facility and to

make sure that Bonneville would have a fair share of its capability. Based on Bonneville's commitments and the recognition that Federal construction would be the most efficient alternative, the Bonneville proposal was accepted. Our proposals for the IAP have incorporated those principles; recognizing that the original commitments were unclear as to the proper balance between access for firm transactions and access for non-firm sales, we have also regularly provided alternative suggestions for establishing that balance in an equitable manner.

Through its many IAP drafts, and through the Near-Term Interim IAP and the Near-Term IAP, Bonneville has put forward a variegated, but always complex, treatment of non-Federal access. Particularly with respect to access for non-Federal firm power transactions (Assured Delivery), Bonneville has imposed limitations, restrictions and outright prohibitions which have effectively barred use of the Intertie for such transactions since 1983. On this subject, Bonneville's statements of Policy have always constituted market access policies, rather than Intertie access policies. For four and one-half years, Bonneville and the other two Intertie owners have been the only Northwest entities that could consummate firm contracts with Southwest utilities. Yet, aside from the recently announced deal with Glendale, Burbank and Pasadena, I am not aware of Bonneville's achieving a single kilowatt of new firm contract during that period. Meanwhile, Northwest non-Federal utilities which desperately needed the benefits of firm transactions have suffered tremendously, most having to increase rates to a greater extent and several experiencing net losses and credit downratings. The upshot of Bonneville's refusal to provide Assured Delivery during that time must be seen as a massive net detriment to the region, in which Bonneville gained nothing (in fact lost substantial wheeling revenues) and the Northwest non-Federal utilities incurred great losses. Just as importantly for the future, perhaps, there are now a number of non-Federal Northwest utilities which will no longer be willing to rely on Bonneville's commitments--commitments that were essential

to the achievement of "one-utility" planning and to the realization of economies of scale in the region.

The damage done to the region in the last four and a half years is irreparable, but we continue to hope that the Intertie's future will be governed by an IAP which is clear, simple, responsive to changing conditions and in conformity with the founding principles. We continue to advocate the establishment of an IAP which:

1. Provides an undifferentiated block of Intertie capacity, growing with Intertie additions, for non-Federal firm access. We believe that block initially could be as large as 1500Mw without encroachment upon Bonneville's need for firm access. After a relatively short waiting period to make sure that those with a Section 9(i)(3) priority receive their due, firm access should be granted Northwest scheduling utilities on a first-come, first-served basis
2. Provides for non-firm access on the basis of formula allocation, similar to Conditions 2 and 3 of the Draft LTIAP, and
3. Provides a workable mitigation scheme, by which non-Federal utilities with new Assured Delivery hold harmless, partially or totally, sellers of non-firm energy, to the extent that Assured Delivery reduces the amount of Intertie capacity available for real non-firm sales.

We believe that the entities involved in Intertie access are utilities, not resources, and we believe that the access to be dealt with concerns a facility, not a market.

The process by which Bonneville has conducted the four-and-one-half-year discussion of Intertie access has also been frustrating, and undeservedly demeaning, to the members of the Intercompany Pool. In my first set of comments, I noted that most of the ICP companies had been heavily involved in the original negotiations which established the structure of the Intertie; I also pointed out that, aside from Bonneville itself, those companies were by far the greatest users of the facility in the

Northwest. Our proposals have not only been consistent, but they have been positive, constructive suggestions designed to provide equitable access for all users of the facility, including Bonneville. I have attempted to persuade Bonneville that there is nothing improper for the users of a service to have special standing in discussions regarding the terms of the service with the provider of that service. Yet Bonneville has apparently given all opinions equal weight, regardless of their merit and regardless of the directness of the commenter's involvement. Bonneville's ability to establish even-handed, reasonable arrangements for the use of its services will be fatally damaged, if it continues to give equal, party status to those who do not use the service and (1) want only to maximize Bonneville's revenues from customers other than themselves or (2) seek every possible vehicle for the imposition of their particular environmental or economic panaceas.

SHOW-STOPPERS

There are many provisions of the Draft, itemized below, which will discourage beneficial use of the Intertie by non-Federal utilities, but there are two which will render the promise of firm access totally illusory. Each requires that contracts for Assured Delivery will contain language permitting Bonneville to reduce or eliminate Assured Delivery in its discretion. One of these may be triggered in the case of the Northwest utility acquiring alternative ownership or contractual transmission rights to any utility in the Southwest, and the other may be effected if the Northwest utility acquires the output of a hydro resource in a "Protected Area", or if an existing hydro resource in such an Area is relicensed in a manner unsatisfactory to Bonneville.

Whatever occurrences Bonneville believes it must protect against, and whatever enforcement measures Bonneville devises to implement the protection, there can be no firm contracts between

Northwest and Southwest utilities if Assured Delivery, once granted, can be taken away by Bonneville in its discretion--especially in response to actions by a utility which are legal and generally considered to be acceptable efforts to benefit customers.

OBJECTIONABLE PROVISIONS--BRIEFLY

- Formula Allocation Condition 1 -- This Condition of Formula Allocation contains a chain of inappropriate features which are hurtful to non-firm energy sales--but potentially disastrous for Assured Access.

  Likelihood of Spill -- Bonneville has conceded that it is advantageous to Bonneville to have Condition 1 in effect. Without a specification of time horizon, even in the most general terms, "likelihood" of future spill can be proclaimed virtually at any time Bonneville wishes. If there is to be a Condition 1 after the Exportable Energy Agreement expires, it should be triggered on the likelihood of spill within a reasonable time, say thirty days, or upon Bonneville's determination that the additional energy expected to be sold under Condition 1 would spill if not sold now.

  Hydro Cap -- Limiting an allocation to installed hydro capacity has several problems:

  a) It is irrelevant to an allocation of energy surplus
  b) Administrative problems are rife; there are bound to be disputes about realization factor, scheduled maintenance, prolonged forced outages, seasonal reservoir drawdown, etc.
  c) It implies that all exports under Condition 1 are hydro energy. This will invigorate arguments against use of fully-allocated system cost-based rates by Bonneville and non-Federal utilities.

  The ICP proposed last year that if Bonneville wants 65% of the Intertie under Condition 1, it should simply take 65% of the Intertie and allocate the remainder based on declarations.

Allocation to Market at BPA's Price -- Bonneville has provided itself rate flexibility over a very wide range. Based on its own selection of price, Bonneville will determine the size of the market. Setting a high price can make the market, and resulting allocations, very small.

Mitigation -- A non-Federal utility with Assured Delivery will have to buy the excess of Assured Delivery above its allocation from Bonneville at Bonneville's declared price, with no ability to assure itself of a reasonable allocation and no proof required that BPA's energy is otherwise marketable. Last year's ICP proposal called for an allocation of the total Intertie, based on declarations, with mitigation purchases required only if Bonneville (and others) actually sell their reduced allocations and at the actual prices of such sales.

Market Expansion -- Bonneville reserves the right later to sell additional energy at a lower rate, but forced mitigation purchases will continue, priced at the original quote.

Mitigation Market -- The above combination of self-serving provisions would create a new market for Bonneville, a "mitigation market". This market could be established virtually at any time, and it would allow Bonneville to sell energy to utilities holding Assured Access in amounts close to the amounts of Assured Access, and at almost any price included in Bonneville's rates. If this prospect is not a "show-stopper", it certainly comes awfully close.

Two proposals which have been discussed since the Draft was issued would relieve some of the problems discussed above, if they are structured reasonably. The substitution of a fixed surcharge for the operational mitigation proposal might assure Bonneville of recovery of revenue expected to be lost otherwise by the encroachment of new Assured Delivery on Intertie capacity now available for non-firm sales; and it would remove all parties' concerns about the manipulations which could distort the effects of the operational scheme.

Coupled with such a fixed surcharge, the proposal which Bonneville put forward at the meeting on January 27, 1988, would solve our concerns about Hydro Cap and allocation to a market. However, we still believe that the treatment of Condition 1 and mitigation which was included in our proposed, attached alternative IAP is the most appropriate way to deal with these issuese.

- Must Use Own Rights First -- Bonneville's proposed requirement that a utility must use its ownership or contractual transmission rights connecting it with any Southwest utility, before it may obtain or retain access to Bonneville's Intertie capability, is simply coercive. With regard to existing rights, and to the extent that the IAP actually provides access to Northwest utilities, it relegates Portland General Electric and Pacific Power & Light to non-citizen status for access over the DC Intertie line. Any utility which might apply for Intertie access would, in practical effect, have to be prepared to foreswear any future, possible transmission acquisition linking it with the Southwest. It would be fair and logical, if not very meaningful, for BPA to insist that a utility must use its own transmission to the same Southwest utility first. Bonneville apparently assumes that non-Federal utilities will invest substantial capital in transmission, and then leave it idle so that they can pay Bonneville for wheeling, in addition.

  Bonneville should not discriminate in providing Intertie access based on the utility's other rights or ownership, new or old. We believe that protection of Bonneville's real interests, given the substantial new investments being made, would actually be served by providing that the utility could not reduce its Assured Delivery demand during the term of the firm wheeling contract, except by mutual consent, even if the utility does acquire alternative rights.

- No Cash-Out and Wheeling of Obligation -- Bonneville curiously demands mitigation when exchange exports interfere with its sales of non-firm energy but requires performance of the exchange when the imports increase its market. This working both sides of the street removes a potential, major benefit of exchanges and attempts to create a market for Bonneville energy by force. Similarly, the proposed requirement that exchange obligations of Southwest utilities must be delivered to COB/NOB restricts Northwest sources of such energy, reducing the benefits of exchanges still further and forcing unnecessary wheeling payments. Neither of these restrictions is relevant to the equitable use of the facility; both are simply use of Bonneville's control of the facility to enlarge its market for energy sales.

- Fish-and-Wildlife Restrictions -- We remain mystified as to Bonneville's real need to include fish-and-wildlife exclusions for Intertie access. When asked for explanations during the formulation of the Near-Term IAP, Bonneville representatives repeatedly told us that the provisions were necessary to avoid BPA's having to prepare an EIS on the Near Term IAP. Now that Bonneville has done an EIS on the Long-Term IAP, we are told that Bonneville must comply with some abstract fish-and-wildlife "obligations" and that Bonneville must protect its F&W investment. Although we can point to instances in which Federal developments have increased non-Federal costs in mitigation of F&W impacts (e.g. Water Budget), we have yet to hear of a single case in which a non-Federal development has impacted BPA costs.

  With regard to the proposal, we object to Bonneville's adopting the Northwest Power Planning Council Staff's Protected-Area concept before the NWPPC even enters rule-making with a definite proposal. If the NWPPC adopts the concept, the Federal Energy Regulatory Commission is obligated to take it into account; it is highly presumptuous for Bonneville to

assume that FERC, a Federal agency in the same Department, will flout its lawful duties. We object to a Federal agency proposing to punish a utility for obeying Federal law (PURPA). We object to Bonneville's proposing to include relicensing; this amounts to confiscation--even the F&W advocates on the NWPPC staff have confined the Protected-Area concept to new sites. Of course, we object to Bonneville's punitive approach; it is one thing to deny an increase of access for an offending plant. Bonneville proposes to reduce access already committed, including Assured Access, for facilities in Protected Areas. We object to Bonneville's effectively magnifying the size of an offending plant by proposing to decrement final allocations, rather than the basis of the allocations.

And we object to Bonneville's reserving the right, on top of all the other self-serving provisions of the proposed IAP, to wipe out non-Federal allocations whenever Bonneville's F&W requirements, such as Water Budget, would otherwise cause spill on the Federal system. It is virtually axiomatic that discharge requirements which cause overgeneration at Federal plants will also cause overgeneration at non-Federal plants.

- Amount and Time of Assured Delivery -- Assuming that the aforementioned debilitating conditions for Assured Delivery are removed, the proposed total amount of 800Mw is likely inadequate for the quantity of beneficial firm transactions desired by Northwest non-Federal utilities. However, informal surveys indicate that it is not far from being sufficient; we suggest that a relatively small increase, say to 1000Mw or 1200Mw, might avoid the rush to complete contracts that might be caused by even a slightly inadequate quantity, as well as a contentious allocation which Bonneville would have to establish. Furthermore, we continue to propose that the block of Intertie made available for non-Federal Assured Delivery be treated as a monolith. Most of the contracts

recently completed or currently in negotiation cannot be clearly defined as firm power sales, firm capacity sales or exchanges. This would permit BPA to eliminate the Exhibit B allocation, which is arbitrary and inappropriate to the long term, allowing utilities to take responsibility for their own futures. We believe that a reasonable waiting period before Assured Delivery contracts become effective is necessary, primarily to assure the priority under Section 9(i)(3) of the Act, but a waiting period lasting until February 1989 is unnecessarily long.

Sincerely yours,

Merrill Schultz

Merrill S. Schultz

enc.

cc: ICP Committee, Alternates, Lawyers

Attachment LTIAP-3-11B

PROPOSED ALTERNATIVE LONG TERM INTERTIE ACCESS POLICY

A. Definitions

1. "Administrator" means the Bonneville Power Administrator and is used interchangeably herein with "Bonneville Power Administration" and "BPA."

2. "Assured Delivery" means Intertie transmission service provided by BPA pursuant to this policy that, for the term agreed by BPA in the transmission contract and regardless of changes of this policy, is interruptible by BPA only as a result of uncontrollable forces.

3. "Extraregional Utility" means a Scheduling Utility which serves no end-use consumer in the Pacific Northwest.

4. "FD-Supported Sales" means that portion of a firm power sale by a Regional Utility to an entity in the Southwest that is substantially equal to the Regional Utility's purchase of BPA Firm Displacement Power.

5. "Intertie Capacity" means transmission capacity of the Pacific Intertie which is controlled by BPA through ownership or contract right and available for the schedule of delivery of power between the Pacific Northwest and the Southwest.

6. "Intertie Coordinating Agreement" means a multi-party agreement intended by BPA to be established between BPA and Scheduling Utilities desiring access to Intertie Capacity, to implement certain aspects of this policy, chiefly transactions provided among BPA, Scheduling Utilities having Assured Delivery and Scheduling Utilities having allocations of Intertie Capacity under Section F hereof.

7. "Pacific Intertie" means those high-voltage (500 kV and above) transmission facilities, as designated by the Administrator, which connect the power system of the Pacific Northwest with that of the Southwest across the Oregon border with California and Nevada.

8. "Pacific Northwest" means the area defined in the Northwest Regional Preference Act (Public Law 88-552).

9. "Regional Utility" means a Scheduling Utility which serves end-use consumers within the Pacific Northwest.

10. "Scheduling Utility" means an electric utility, not including BPA, that operates an electric generation control area, together with any utility within BPA's generation control area that schedules transactions with BPA and is so designated by BPA.

11. "Section 9(i)(3) Priority Sales" means those sales designated by the Administrator as receiving priority under Section 9(i)(3) of the Pacific Northwest Power Act (Public Law 96-501).

12. "Southwest" means Extraregional Utilities that have access by ownership or contract to the Pacific Intertie, at points south of the Oregon border.

B. Term

This policy is effective on July 1, 1987, and will continue in effect until terminated or modified by the Administrator.

C. Conditions for Intertie Access

1. The Administrator will provide Assured Delivery or will allocate Intertie Capacity to BPA and to Scheduling Utilities pursuant to the conditions and procedures set forth in this policy, unless otherwise provided by the terms of contracts existing

on July 1, 1987, and listed in Exhibit C. Any Intertie transmission services provided for entities other than Scheduling Utilities or BPA must be arranged through the Scheduling Utilities, or BPA, responsible for the control of the transaction.

2. BPA will provide Assured Delivery or allocations of Intertie Capacity only for transactions of BPA and Regional Utilities, except to the extent that transactions of Extraregional Utilities are permitted access under this policy. For purposes of determining access to Intertie Capacity, Regional Utility declarations of available surplus energy shall not include amounts of energy that have been purchased from an Extraregional Utility, unless the Administrator would otherwise have provided direct access for such energy of the Extraregional Utility at such time. If the Administrator determines that energy purchased from an Extraregional Utility has been impermissibly included in a Regional Utility's declaration of surplus energy, BPA will adjust the Regional Utility's declaration accordingly.

3. The Administrator will provide Assured Delivery and allocations of Intertie Capacity to Regional Utilities and, under conditions provided in this policy, to Extraregional Utilities only when providing such access will not (a) substantially interfere with the operating reliability requirements of the Federal Columbia River Power System, or (b) conflict with legal or contractual obligations of the Administrator.

4. Any Scheduling Utility that has access to a Southwest Scheduling Utility by contractual or ownership rights in transmission capacity not included in Intertie Capacity will be required to use such rights prior to requesting access to Intertie Capacity for any transaction with the same Southwest Scheduling Utility.

D. Intertie Capacity Reserved for BPA (BPA Reservation)

BPA will reserve for its use amounts of Intertie Capacity as follows, in aggregate, but without overlap:

1. An amount sufficient to market BPA's surplus Firm Energy Load Carrying Capability, shaped seasonally and hourly as reasonably anticipated by BPA for best use
2. An amount sufficient to perform BPA's obligations under its existing contracts, as listed in Exhibit C, and its new firm power sales and exchange contracts
3. An amount sufficient to provide Assured Delivery for FD-Supported Sales
4. An amount sufficient to provide Assured Delivery for Section 9(i)(3) Priority Sales

E. Assured Delivery for Intertie Access

BPA will provide Assured Delivery appropriate to the firm power delivery requirements of qualifying Regional Utilities' contracts. For Assured Delivery not included in the BPA Reservation, the Scheduling Utility must be a signatory of the Intertie Coordinating Agreement, which will implement the provisions of this policy. It is BPA's intention to make the excess of Intertie Capacity above the amount required for the BPA Reservation, as adjusted for schedules in the direction opposite of that which may require allocation, to be made available for both Assured Delivery and formula allocation, as described in Section F below.

A Regional Utility requesting Assured Delivery for a contract must submit a copy of the proposed contract to the Administrator. The Administrator will review the contract and will, in a timely manner, inform the Regional Utility (1) of the amount of Assured Delivery which will be provided and (2) of the terms and condi-

tions which will apply to wheeling of transactions under the contract. Assured Delivery for a contract will not be denied except if:

1. There is not sufficient Intertie Capacity remaining for Assured Delivery under the proposed contract,
2. The transactions provided by the contract are determined not to be firm transactions. A transaction will be considered firm if the contract provides the receiving party of any delivery thereunder the right to demand such delivery during the period of time specified for it, or
3. The Scheduling Utility requesting Assured Delivery is not a party to the Intertie Coordinating Agreement.

F. Formula Allocation Methods

1. The amount of Intertie Capacity available for formula allocation in either direction will be the Intertie Capacity available for schedule in such direction, adjusted appropriately by the BPA Reservation. BPA will determine the amount of Intertie Capacity available for formula allocation, and will determine the allocation according to the formulas described below.

2. One of three formulas will be used to allocate the available Intertie Capacity, depending on which of these following three conditions exists:

a. Condition 1: When Exportable Energy is being scheduled pursuant to the terms of the Exportable Agreement (BPA Contract No. 14-03-73155) or a successor agreement containing substantially equivalent allocation provisions, Intertie Capacity will be allocated according to the Exportable Agreement, as modified by the Intertie Coordinating Agreement described in Section G below. The Exportable Agreement expires by its terms on December 31, 1988; if there is no successor agreement, there will be no Condition 1.

b. Condition 2: When Condition 1 is not in effect, but BPA and Regional Utilities declare amounts of power available for access to the Intertie that exceed the available Intertie Capacity, the capacity will be allocated pursuant to the following procedure, as modified by the Intertie Coordinating Agreement described in Section G below:

(1) On any day the Regional Utilities observe as a normal workday, each Regional Utility will submit to BPA declarations of desired hourly Intertie schedules for the period beginning at midnight of the day of declaration and normally continuing through midnight of the next normal workday.

(2) For each hour of such declaration the Regional Utility shall also specify the portion of desired schedule which is an Assured Delivery.

(3) BPA's and the Scheduling Utilities' preliminary allocation for each hour will be determined and will approximate the ratio of each declaration to the sum of all declarations for each hour multiplied by the available Intertie Capacity.

(4) For each Regional Utility whose preliminary allocation is less than its Assured Delivery, its allocation will be increased to equal its Assured Delivery. The difference will be reflected first in BPA's allocation, to the extent that BPA has a preliminary allocation, and then, if necessary, in the allocations of Regional Utilities, pro rata, whose preliminary allocations exceed their Assured Deliveries.

c. Condition 3: When Condition 1 is not in effect, and when BPA and Regional Utilities declare power available for access to the Intertie in an amount that does not exceed the available Intertie Capacity, BPA's and each Regional Utility's allocations will be equal to their declarations.

G. Intertie Coordinating Agreement

1. It is BPA's intent to negotiate an Intertie Coordinating Agreement among itself and Regional Utilities to permit Regional Utilities a beneficial and equitable balance between Assured Delivery and formula allocation access to the unreserved portion of Intertie Capacity.

2. The Agreement will provide that, to the extent any party's allocation under Condition 1 or Condition 2, described above, is reduced by virtue of other parties' Assured Delivery, and to the extent that such party could have disposed of its preliminary allocation, such party may sell energy for such hour, up to the amount of the reduction in allocation, to the party(ies) whose Assured Delivery exceeds its preliminary allocation.

3. A party will be determined to have been able to dispose of its preliminary allocation if it is able to schedule substantially its reduced allocation.

4. The price of the energy will be the average price, at the source, of the energy which the selling party was actually able to sell over its reduced allocation.

H. Access for Extraregional Utilities

1. Extraregional Utilities will not be granted Assured Delivery, except as provided in the contracts shown in Exhibit C or as provided in Section I below.

2. Prior to the expiration of the Exportable Agreement or its successor, if any, access under Condition 1 is limited by the terms of said Agreement to its signatories. Except as provided in Section I below, Extraregional Utilities will not receive an allocation of Intertie Capacity under Condition 2. Under condition 3, Extraregional Utilities will have access to the Intertie to the

extent that Intertie Capacity is available in excess of the capacity used by BPA and Scheduling Utilities, except as provided in Section I below.

I. Special Provisions for Canadian Scheduling Utilities

1. Canadian Scheduling Utilities will be granted Assured Delivery only by contract with BPA. Such contract must include assurance of benefits to BPA and Regional Utilities such as increased availability of storage transactions and improved coordination of system operations, to a level similar to that which exists among Regional Utilities and BPA. In addition, such contract must contain provisions assuring BPA and Regional Utilities reciprocal use of the transmission systems of the Extraregional Utilities which are parties. Such Assured Delivery will also be conditioned on an increase of total Intertie transfer capability to an amount greater than 7500 MW.

2. BPA may, by contract, provide Canadian Scheduling Utilities limited access to Intertie Capacity under Condition 2, described above. Such access, however, would be conditioned on the Canadian Scheduling Utilities' participation in the Pacific Northwest's coordinated planning and operation to a greater extent than in the past.

3. Under Condition 3, Canadian Scheduling Utilities will have access to the Intertie to the extent that Intertie Capacity is available in excess of the capacity used by BPA, Regional Utilities and U.S. Extraregional Utilities.

J. Exhibits

UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
NATIONAL MARINE FISHERIES SERVICE
ENVIRONMENTAL & TECHNICAL SERVICES DIVISION
525 NE Oregon Street, Suite 500
Portland, Oregon 97232-2275
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FEB 05 1988

F/NWR5-627

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-60
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
L (OP)
CC: PJI
J. Normandeau

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Dear Ms. Geiger:

The National Marine Fisheries Service (NMFS) has reviewed the Revised draft Long-Term Intertie Access Policy (IAP) and has the following comments.

Overall Approach

The Bonneville Power Administration (BPA) should be commended for the new approach taken in the revised policy. Unlike previous draft and interim Intertie policies, the new policy provisions concerning fish and wildlife are clear, unambiguous, easy to administer, and enforceable. While the focus on protected areas is narrower than the current approach which bars all new hydropower development, it strikes an appropriate balance--it avoids Intertie incentives for damaging hydropower resources, but encourages only projects with lesser or no fish and wildlife impacts.

The fish and wildlife enforcement provisions of the IAP, requiring automatic decrements based on nameplate rating, are an administratively reasonable and workable way to assure compliance with the policy. These provisions stand in marked contrast to the current interim policy, which test cases have shown to be complex, poorly worded, impossible to administer in a manner protective of fish and wildlife, and virtually unenforceable due to tracing requirements. Inclusion of these proposed fish and wildlife provisions in the final policy is consistent with BPA responsibilities under the Pacific Northwest Electric Power Planning and Conservation Act (PNEPPCA) and the National Environmental Policy Act (NEPA), as recognized in the recent decision of the Court of Appeals in California Energy Commission v. BPA, No. CA 84-7836 (November 6, 1987). Contrary to BPA implication, however, the Court's decision did not limit BPA responsibilities only to protection of its fish and wildlife investments.

Despite our general support for the IAP approach, the policy has several deficiencies that should be addressed and resolved, as discussed below.

Applicability Outside the Columbia Basin

Although we can support a compromise IAP that precludes Intertie access for new hydropower projects only in protected areas, we must object to BPA's further limitation of the IAP to projects only in protected areas within the Columbia River Basin. Such a narrow IAP strikes no balance at all between fish and power concerns. Since it is anticipated that the Northwest Power Planning Council's (Council) proposed protected area designations will extend outside the Basin, full consistency with the Council's Regional Energy Plan and Fish and Wildlife Program would require that BPA apply Intertie decrements based on protected area hydropower resources outside the Basin. There is no question of BPA's authority to adopt a policy extending outside the Columbia Basin under the PNEPPCA and NEPA. Indeed, BPA recognized this basic authority in the Near Term Intertie Access Policy, which covers new hydropower development in the region regardless of river basin location.

The result of such a limited IAP will be increased incentives for hundreds of damaging new hydro projects in Puget Sound and coastal areas. Basins producing important runs that would be jeopardized by the proposed IAP include the Skagit, the Snohomish, the Nooksack, the Rogue, the Umpqua, and the Hood Canal area. These basins are the subject of over 200 active applications for new hydropower development at the present time. The current rationale being applied by the Federal Energy Regulatory Commission (FERC) to address agency objections to these applications based upon need for power is the availability of power markets using the Intertie. See, FERC, Snohomish River Basin, Seven Hydroelectric Projects, Washington, Final Environmental Impact Statement (Docket No. EL85-19-101), June 1987. BPA cannot simply ignore the potentially devastating fishery consequences that could result from failure to extend the proposed IAP outside the Columbia.

Concerns about adverse fishery impacts in Puget Sound and coastal areas are not limited to NMFS. The Northwest Power Planning Council's recent Issue Paper on Protected Areas Designation, in endorsing designation of protected areas outside the Columbia Basin, emphasizes that protection of the Columbia alone would likely shift new hydropower development to areas outside the Basin. This, in turn, could cause habitat degradation and a decline in fish and wildlife resources outside the Basin, resulting in increased pressure to harvest Columbia River stocks. The same problem could occur under the IAP. Unless the IAP is extended to protected areas outside the Columbia, BPA efforts on behalf of Columbia River stocks ultimately could be impaired if

increased harvest on these stocks occurs as Puget Sound and coastal stocks suffer declines.

Existing Projects

BPA's inclusion of existing projects in the IAP represents a positive and necessary step in protecting fish and wildlife resources. However, the IAP as proposed contains the following ambiguities and limitations that should be corrected.

First, the IAP is limited to existing non-federal projects at the time of relicensing. There is no reasonable justification for these two limitations. Federal as well as non-federal projects should be covered by the IAP in the interest of fish and wildlife protection. Moreover, imposition of the fish and wildlife provisions of the IAP should not be delayed until the time of relicensing, which may not occur for decades. As we have seen in FERC's Mid-Columbia proceeding, project modifications to benefit fish and wildlife should not and need not wait decades for implementation.

Second, the standard the IAP proposes to apply to existing projects is loosely worded and subject to varying interpretation. As a result, it is difficult to evaluate how BPA will enforce a requirement based upon BPA "assistance" in developing "necessary protective conditions." We recommend that the policy simply require consistency with the Fish and Wildlife Program for existing projects in the Columbia River Basin, and consistency with Appendix II-B of the Regional Energy Plan for other existing projects. This approach would certainly comport with Section 4(h)(10), cited by BPA in its introduction to the IAP and by the Court in California Energy Commission, as well as other provisions of the PNEPPCA.

Third, the IAP proposes complete BPA discretion as to its "assistance" and "necessary protective conditions," a situation entirely at odds with the PNEPPCA. At the very least, that Act requires consistency with the Program and Plan, equitable treatment for fish and wildlife, and consultation and coordination with fish and wildlife agencies and Indian tribes.

Finally, it is our reading that the enforcement provisions of Section 7(c) would also apply to existing projects, i.e., the utility would suffer an automatic decrement if an existing project did not meet fish and wildlife standards. We support this approach, for existing as well as new projects, for its enforceability and workability.

Enforcement

As noted above, we strongly support enforcement of the fish and wildlife provisions of the IAP through automatic decrements under

Section 7(c). However, we are concerned about the possible misinterpretation or weakening of Section 7(c) enforcement by the separate enforcement provisions of Section 8. Section 8 should be clarified by stating that its provisions do not apply to Section 7, where Section 7(c) is controlling as to enforcement.

Addressing options for reducing power allotments on the Intertie, complete denial of Intertie access to a utility that is inconsistent with IAP fish and wildlife provisions should be considered as an alternative for reducing the incentive for construction of hydropower resources damaging to fish. Using this alternative as an option provides a full range of alternatives for consideration. Considering this full range, we agree with BPA that just prohibiting protected area resource energy from Intertie access would not provide sufficient disincentive to discourage construction of hydropower projects damaging to fish. We could support the middle-of-the-range option that reduces a utility's Intertie allotment by the capacity of protected area resources. By applying a penalty, we believe a more effective disincentive would be provided for the protection of anadromous fish.

In addition, it has come to our attention that a potential loophole exists in the IAP. The IAP allows Intertie access for a utility acquiring power from another utility which may have a fish damaging resource in its resource stack. We recommend that BPA address this potential situation prior to the final Intertie Access Policy.

Further NEPA Review

Because of the deficiencies noted above, the IAP poses additional issues that require further evaluation under NEPA. First, the impacts of limiting the IAP to protected areas should be explored. Projects located outside of protected areas can still have significant adverse effects on anadromous fish, both inside and outside protected areas. Sedimentation, reduced downstream flows, loss of benthic organisms, and cumulative impacts can all occur outside of protected areas. Second, the incentive effect and related impacts of excluding protected areas outside the Columbia should be analyzed. Those impacts are summarized in our comments above. Third, in keeping with recent court decisions, worst case analysis should be used to evaluate impacts where data and information are uncertain. And fourth, also in keeping with recent court decisions, further NEPA review should include detailed mitigation alternatives for identified impacts. These alternatives should include the present approach that prevents Intertie access to all new hydropower resources, as well as an approach that denies any Intertie access to a utility acquiring power from a protected area resource.

The IAP indicates that "outside protected areas, BPA will intervene in FERC proceedings to protect its fish and wildlife investments." While NMFS does not oppose BPA intervention in FERC proceedings, that statement alone is neither a policy nor a mitigation measure, and leaves uncertainty as to how BPA will follow through to fulfill its responsibilities.

Thank you for the opportunity to comment.

Sincerely,

Einar Wold
Acting Division Chief

cc: CBFWA (for distribution)

PUBLIC UTILITY DISTRICT NO. 2 OF GRANT COUNTY

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February 5, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3121
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
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CC: PJI

Ms. Donna Lou Geiger
Public Involvement Manager
Bonneville Power Administration
P. O. Box 12999
Portland, OR 97212

Dear Ms. Geiger:

The District provides the following comments regarding the Revised Draft Long-Term Intertie Access Policy:

We support, generally, the draft Policy and commend BPA for the efforts they have made to produce a well-balanced policy. The draft can be improved in several areas. Section-by-section detailed comments have been provided by the Public Generating Pool (PGP) in which the District is a member. We collaborated in the development of those comments, and fully support their content. Please regard the PGP comments as our own.

In addition, we re-emphasize the comments of PGP and PNUCC on the issue of intertie access for relicensed hydroelectric projects. The draft policy contemplates the possible restriction of intertie access for relicensed projects if fish and wildlife measures in the license do not meet BPA's expectations. This is wholly inappropriate.

As custodian of a significant portion of the region's non-federal hydroelectric capacity, we are committed to meeting our obligations under applicable law for the protection and enhancement of fish and wildlife resources. We are prideful of our accomplishments to date in this area.

We specifically plan hydro operations and other utility actions with thoughtful regard for fish and wildlife as we approach the relicensing of Priest Rapids and Wanapum developments. BPA's investment in fish and wildlife, relative to relicensed projects, is fully protected by the provisions of the Electric Consumers Protection Act (ECPA). We encourage BPA to participate fully in the relicensing process and demonstrate its needs for protection of investment. However, BPA must recognize FERC licensing provisions as final and complete protection of its investment. To do otherwise discredits the substantial and painstaking efforts required for hydro-electric project relicensing.

Thank you for the opportunity to comment on this important policy.

Sincerely,

John L. McMahan
Manager

DHM/JLM:cm

LTIAP-3-122

LAW OFFICES OF

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LOG #: LTIAP-3-122
RECEIPT DATE:
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February 4, 1988

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P. O. Box 12999
Portland, OR 97212

Re: PGC

Dear Ms. Geiger:

Enclosed you will please find the initial written Comments of The Washington Water Power Company in regard to the BPA Long-Term Intertie Access Policy proposal. These Comments are submitted in response to the letter from John Cameron dated December 15, 1987.

In conjunction with the written Comments herewith submitted, we also wish to place of record a number of documents which were referred to or relied upon in our written Comments. These are provided in a separate binder entitled "Support Documentation for Written Comments of The Washington Water Power Company Regarding BPA's Long-Term Intertie Access Policy dated February 4, 1988."

We would leave it to your discretion as to whether it is necessary to mail the somewhat voluminous supporting documentation to others who are submitting initial written Comments.

Very truly yours,

PAINE, HAMBLEN, COFFIN, BROOKE & MILLER

Gary A. Dahlke

GAD:ty
Enclosures
cc: Mr. W. Les Bryan

THE WASHINGTON WATER POWER COMPANY

1988 COMMENTS OF

THE WASHINGTON WATER POWER COMPANY

ON BPA'S LONG-TERM INTERTIE ACCESS POLICY

DATED: February 4, 1988

The Washington Water Power Company
P. O. Box 3727
Spokane, WA 99204
(509) 489-0500

1988 COMMENTS OF
THE WASHINGTON WATER POWER COMPANY
ON BPA'S PROPOSED LONG-TERM INTERTIE ACCESS POLICY

The Washington Water Power Company (WWP) has been an active participant in attempts to persuade BPA that a workable Intertie Access Policy in compliance with federal law is achievable without significant impact upon the legitimate interests of BPA's power marketing program.

WWP and BPA apparently differ in a statement of BPA's power marketing program interests as applied to the proposed Long-Term Intertie Access Policy (LTIAP). These differences will be fully discussed in these comments. WWP has commented extensively on each Intertie proposal commencing in 1984. For purposes of supplying a complete record of the history of attempts by WWP to secure an equitable non-discriminatory policy for access to the Intertie, copies of those prior comments are being submitted separately.

Interests of WWP. WWP is an investor-owned utility serving approximately 240,000 electric power customers in the States of Washington and Idaho. WWP generates or purchases all of its firm power requirements, approximately 900 average MW from sources other than BPA. The only firm energy which WWP schedules from BPA relates to two exchange agreements under which WWP has exchanged power entitlements with the Administrator (WNP-1 Exchange Agreement and WNP-3 Exchange Agreement). WWP owns or has contract rights to 1167 MW of hydroelectric capacity and 521 MW of thermal capacity. WWP uses these resources for its own area loads and for economy sales of surplus power.

Because of the diversity in peak loads and seasonal loads between California utilities and WWP's system, WWP was one of the

first Northwest utilities to use excess capacity on the Intertie for exchange agreements. These exchanges provide for the most efficient use of existing resources and avoid construction of new expensive thermal generation. WWP entered into two long-term contracts utilizing the Pacific Northwest/Southwest Intertie ("Pacific Intertie" or "Intertie")--one with San Diego Gas & Electric Company and one with Southern California Edison Company. Copies of these contracts and related transmission agreements with BPA are submitted separately for the record.

Both the San Diego and Edison contracts expire by 1990. Since 1983, WWP and Southern California Edison have sought, without success to obtain a commitment from BPA for Intertie capacity to extend the Edison contract. BPA has repeatedly refused to consider an extension, usually referring to the on-going LTIAP study as a reason for denying WWP's requests. Copies of the correspondence requesting access and BPA's letters of refusal are submitted separately for the record.

In addition to the Edison exchange, WWP is seeking Intertie access for another seasonal diversity exchange with Pacific Gas & Electric Company. This exchange, for 150 MW, was executed in 1987 and is scheduled to begin in 1991. A request for firm Intertie capacity for this exchange has also been made to BPA and has been denied. Copies of the contract and correspondence requesting Intertie capacity for the PG&E exchange are submitted separately for the record. The importance of exchanges, such as the PG&E exchange to WWP customers cannot be overstated. WWP estimates that replacement of the power exchanged under this contract would cost WWP approximately $12 million more, in the first year alone, than if WWP could schedule the PG&E exchange. The results of this study are shown on Exhibit "1".

Finally, WWP has an interest in doing business with California utilities in firm and non-firm power markets. WWP's current load and resource balance, Exhibit "2", demonstrates WWP's need and ability to engage in firm power sales well into the 1990's. The power which WWP would offer to sell is generated from low cost resources and it is competitive with other power

sources in the Northwest, including BPA. Utilities such as Pacific Power & Light Company and Portland General Electric Company, which own a share of the Intertie, have been able to sell power to the California market at prices with which WWP could easily compete. Examples of the Pacific and Portland sales are submitted separately for the record. WWP has been precluded from competing in the California market for firm sales for four years due to the refusal of BPA to allow any new firm use of the Pacific Intertie.

With the significant hydroelectric generation on WWP's system and several low incremental cost thermal resources, WWP has been an active participant in the non-firm California market under the Exportable Agreement. Accordingly, WWP has an interest in the allocation policy which BPA proposes to use after the expiration of the Exportable Agreement in 1988. These comments will also address BPA's proposal for a new non-firm allocation procedure.

BPA Interests. The authority and responsibility of the BPA Administrator with respect to Pacific Intertie was established by statutes, which when enacted were clearly understood to provide for non-federal use of excess Intertie capacity beyond the requirements of BPA. WWP has repeatedly cited these statutes to BPA as the basis for its claim for assured access on the Intertie.

1. Legislative History: The northern portion of the Intertie was constructed pursuant to special legislation which provided that Northwest utilities would be given access to excess capacity not required by BPA for its own use. The Northwest Preference Act of 1964 authorized construction of the northern portion of the Pacific Intertie subject to requirements to protect Northwest utilities. Included in these requirements is the obligation of BPA to make excess capacity on the Intertie available for use by others. Section 6 of the Preference Act PL 88-552 states:

> Any capacity in Federal transmission lines connecting, either by themselves or with non-federal lines, a generating plant in the Pacific Northwest or Canada with the other area or with any other area outside the Pacific Northwest, which is not required for the transmission of Federal energy or the energy required for the transmission of Federal energy or the energy described in Section 9, shall be made available as a carrier for transmission of other electric energy between such areas.

The House and Senate Reports which accompanied the Preference Act, included the following excerpt explaining Section 6:

> ...the Secretary many not decline to enter into a Wheeling agreement merely because he may have energy available for sale to serve the same load.

Thus, BPA is prevented by law from reserving capacity for its own future use without a need for the reserved capacity.

To obtain enactment of the legislation, BPA represented that the carrier status of the Intertie would enable diversity and seasonal exchanges between Pacific Northwest and Pacific Southwest utilities. BPA quantified estimates of the total benefits to both regions, the Pacific Northwest and the Pacific Southwest, for federal and non-federal use. These benefits included the benefits of diversity exchanges.

> Benefits to the Northwest are determined by the net revenues to BPA, net revenues to non-Federal utilities in the region, the value of off-peak Southwest steam for firming up Northwest secondary power, and diversity. Benefits to the Southwest are determined by the difference between costs of transmission plus BPA rates at the Oregon-California or Oregon-Nevada border and what utilities would have had to pay for energy generation (principally fuel costs) and installation of new capacity. Total benefits for the intertie are determined by adding the Northwest and Southwest benefits. [Statements by Charles F. Luce, Bonneville Power Administrator, Before the Public Works Subcommittee, U.S. Senate Appropriations Committee, June 4, 1963, Analyzing and Evaluating the Federal and Nonfederal Proposals for Construction and Use of All or Parts of the Proposed Pacific Northwest-Pacific Southwest Intertie.]

Clearly, in 1963, the utilities expected that construction of the Intertie pursuant to this special legislation would enable federal and non-federal agencies to use the Intertie to take advantage of seasonal diversity in power requirements between the regions. Copies of the pertinent documents demonstrating this history are submitted separately for the record.

The transmission system, including the Intertie, is to be operated to recover the federal costs of the BPA transmission plant. After federal requirements for transmission capacity are met, BPA's interest in the transmission system is to encourage wide spread non-discriminatory use of excess capacity at cost based rates. The Transmission Act provides:

> ...Such rate schedules [including non-federal transmission rates] may be modified from time to time by the Secretary of the Interior, acting by and through the Administrator, subject to confirmation and approval by the Federal Power Commission, and shall be fixed and established (1) with a view to encouraging the widest possible diversified use of electric power at the lowest possible rates to consumers consistent with sound business principles, (2) having regard to the recovery (upon the basis of the application of such rate schedules to the capacity of the electric facilities of the projects) of the cost of producing and transmitting such electric power, including the amortization of the capital investment allocated to power over a reasonable period of years and payments provided for in section 11(b)(9), and (3) at levels to produce such additional revenues as may be required, in the aggregate with all other revenues of the Administrator, to pay when due the principal of, premiums, discounts, and expenses in connection with the issuance of and interest on all bonds issued and outstanding pursuant to this Act, and amounts required to establish and maintain reserve and other funds and accounts established in connection therewith.

16 U.S.C. 838g, Federal Columbia River Transmission System Act.

To the extent that BPA proposes to adopt a policy for Intertie access which is designed to protect or enhance BPA's firm power or non-firm energy sale revenues for the marketing of federal power by either precluding access to unused excess capacity on the Intertie, or conditioning access upon payments unrelated to the costs of transmission services, the policy

contravenes the enabling legislation under which BPA obtained control of the largest portion of the Intertie.

2. BPA's Need for Intertie Capacity. BPA does not need all of the capacity of the Intertie for marketing its own surplus. The size of the Intertie and planned expansion greatly exceeds BPA's projected surplus of power. Intertie capacity presently available to BPA is 4100 MW. With an upgrade from the DC Terminal Expansion Project in 1989, this increases to 5200 MW. With the proposed Third AC line, capacity increases to 6550 MW by 1991.

BPA recently released its 1987 Pacific Northwest Loads and Resources Study. This study is intended to provide utilities with long range planning information. BPA's study, assuming medium loads and BPA service of 0 percent of investor-owned utility load growth, indicates BPA will have an annual firm energy surplus of 1537 MW in 1987-88 declining to 37 MW in the operating year 2004-2005. WWP requests that this study be included in the record.

The same study shows BPA's summertime firm capacity surplus for the months of July through September range between 2526 MW and 3155 MW for 1987-88 (Exhibit 10, p.46). This surplus increases to 5076 MW by 1996-1997, in part because it assumes no continuation of investor-owned utility capacity purchases after 1993-1994. However, even under this assumption, the planned capacity of the Intertie greatly exceeds BPA's total expected marketable surplus. BPA's 1987 Pacific Northwest Loads and Resources Study concludes that the amount of marketable capacity is substantially less than the total capacity surplus due to constraints on BPA's ability to accept nighttime energy returns.

> The level of capacity sales which could be supported without nighttime return problems is much lower than the estimates presented in Exhibit 10. Thus, BPA's marketing efforts hinge on the ability of the Federal system to accept return energy as much as on the amount and availability of Federal firm surplus energy and capacity.

BPA and other Northwest utilities have significantly greater requirements for Intertie capacity to sell non-firm power during

periods of favorable water conditions. However, WWP has proposed to purchase BPA's secondary (non-firm) energy at a competitive market price during periods when BPA's allocation of Intertie capacity is reduced due to WWP's assured delivery contracts. Thus, BPA is not exposed to loss of secondary revenue by granting access to the Intertie for long term contracts such as seasonal exchanges.

3. BPA Studies. It may be appropriate to interpret the provisions of Section 6 of the Northwest Preference Act to permit BPA a reasonable time for evaluation of non-federal requests for Intertie capacity within which to determine whether there are contemporaneous or federal uses which conflict with the request. Even so, the four year period since WWP first began requesting firm Intertie capacity in 1984 greatly exceeds any reasonable period for evaluation.

It is the position of WWP that BPA may not preclude transmission access by utilizing its transmission authority under the Northwest Preference Act and the Transmission Act in order to preserve a potential market for firm power under its marketing program pursuant to the Bonneville Project Act and the Northwest Power Act. In the hearing on the draft LTIAP, BPA has not demonstrated and does not claim that the existing federal uses and the immediately foreseeable uses of the Intertie on a firm basis exceed all available Intertie capacity. The fact that BPA offers 800 MW of assured delivery on the Intertie for firm use is demonstrative of this point.

Many of the studies which have been performed by BPA in connection with its draft LTIAP indicate that BPA is in fact speculating on the preservation or enhancement of firm power markets in the Pacific Northwest and in California as the basis for denial of firm access to the Intertie. BPA studies released January 5, 1988, attempt to quantify costs associated with assured delivery granted on the Intertie for loss of energy sales to Pacific Northwest publicly-owned utilities at the priority firm rate, and for potential displaced capacity sales, both in the Pacific Northwest and the Pacific Southwest. Moreover, BPA's

quantification of a projected loss of secondary sales assumes that in the absence of a firm power sale or seasonal exchange the Pacific Southwest market would install thermal resources which would be subject to displacement by non-firm BPA sales, and thus, would have provided a non-firm market for BPA. BPA has not considered the possibility that the firm power requirements of Pacific Southwest utilities would be supplied by the acquisition of PURPA resources or through conservation, neither of which would provide a non-firm energy market for BPA.

Possible displaced capacity sales either in the Pacific Northwest or in the Pacific Southwest are unrelated to the interests of BPA which should be considered in connection with allocation of transmission capacity on the Intertie. California power markets are not the sole province of BPA. In addition, the issue of lost priority firm energy sales to Pacific Northwest public generating utilities by the effective transfer of their partial requirements from a wintertime load to a summertime load through seasonal exchanges is a matter to be dealt with in BPA's rate cases. The rate cases establish the cost of service for the partial requirements of public generating utilities. The potential for priority firm sales displacement is not a matter upon which to condition Intertie access. This is especially true for non-priority firm rate BPA customers such as WWP. Attached as Exhibit "3" is WWP Firm Resource Exhibit to its BPA Power Sales Contract which shows no purchases of capacity or energy from BPA in the next seven years.

WWP does concur that it is appropriate for BPA to consider the possibility of lost secondary sales that might arise from granting assured access for non-federal firm power sales or seasonal exchanges. This is not for the reason that BPA's marketing program provides an appropriate basis for precluding utilities access to the Intertie. Rather, it is for the reason that at times BPA's federal requirement for non-firm capacity on the Intertie will limit the amount of assured delivery that could be granted, absent some compensating measures. The arrangement entered into between WWP and BPA in the transmission agreement

for the Southern California Edison exchange effectively protects BPA's secondary market sales during times when the federal requirement for non-firm Intertie capacity exceeds that which is available after deducting amounts for assured delivery arrangements. This is a workable solution to the question of the appropriate allocation of the Intertie between firm and non-firm uses. No guidance is given in the enabling legislation to the procedure by which the Administrator is to make a determination of the appropriate allocation between firm and non-firm uses. It is obviously wholly uneconomic and clearly beyond the intent of the legislation that firm capacity on the Intertie should go unused for extended periods of time because of the infrequent but predictable operating condition where a requirement for non-firm use of the Intertie exceeds available Intertie capacity. WWP, therefore, agrees that consideration of the impact of assured delivery upon the allocation of Intertie capacity which would otherwise be available and the resulting impact upon secondary sales to the Pacific Southwest, is appropriate for the LTIAP. WWP further contends that it is wholly inappropriate, divisive, and uneconomic for BPA to consider the requests of some of its customers that access to the Intertie be conditioned upon payment of a toll for a panoply of hypothetical displaced capacity sales, both in the summer and the winter, and for displaced firm energy sales which are not reasonably foreseeable or predictable.

4. BPA Revenues. BPA defends a restrictive LTIAP on the grounds that a more liberal policy would jeopardize federal revenues and repayment of the U.S. Treasury. This argument overlooks the regional purposes of the Intertie which were contemplated when the Intertie was constructed.

The Intertie was never intended to be a primary source of revenue for BPA to repay the entirety of its Treasury obligations. BPA's 1987 transmission rates filed with FERC are designed to be sufficient to fully recover the cost of the transmission system, including the Intertie. BPA should recover its generation costs from its firm and non-firm power customers.

Setting firm power rates too low could impose upon BPA a need to recover additional revenues through surplus sales to the Southwest which in turn provides an incentive for BPA to eliminate competition in Southwest markets by exclusive use of the Intertie. Thus, finding the appropriate level for BPA's Northwest firm power sales is a key to a fair Intertie Access Policy.

BPA does not need the protection it claims in order to make its Treasury payments. BPA's revenues come from several sources. In calendar year 1986 BPA's revenue came from:

	Million $	% of Total
Northwest		
Firm	$1,218	78.2%
Nonfirm Sales	63	4.1%
Outside Northwest		
Firm Sales	168	10.8%
Nonfirm Sales	108	6.9%
TOTAL	$1,557	100.0%

(Source: Calendar Year 1986 Generation and Sales Statistics, Bonneville Power Administration)

If BPA lost as much as 20% of its nonfirm sales outside the Northwest it would need less than a 2% increase in its Northwest firm sales to offset the loss. BPA has the lowest wholesale power rate in the region. Its PF rate is 20% lower than WWP's filed wholesale rate for requirements customers. BPA's policy to reduce its costs further is achieved at the expense of non-Federal utilities.

BPA would not see a substantial load change as a result of a minor rate adjustment. The industrial variable rate significantly reduces the impact on the aluminum smelters (approximately 22% of BPA's sales). WWP was an active participant in development of that rate and supported its implementation. BPA's load elasticity is in the range of -.2 to -.3, which means with a 2% change of rates BPA would expect a load decline of only 0.4% to 0.6%.

BPA decisions regarding use of the Intertie will not adversely affect BPA's firm power customers if the transmission costs of the Intertie usage was recovered in BPA'S transmission rates. Reservation of the Intertie to capture the "highest" value for BPA surplus generation capability is accomplished at the expense of other potential users and customers in the Northwest and Southwest. WWP believes that BPA's costs of generation should be recovered from its firm power requirements customers. Nevertheless, WWP has offered to protect BPA's secondary (non-firm) hydroelectric sales revenues from loss due to allocations of the capacity of the Intertie for seasonal exchanges, surplus sales or other transactions by BPA customers. Therefore, with BPA secondary revenues protected, there is no justification for not making the full unused capacity of the Intertie available for these transactions. In so doing, BPA would be fulfilling its directive under the Northwest Power Act to make transmission services available to its customers.

Draft Long-Term Intertie Access Policy. The following are comments of WWP regarding those conditions for access to the Intertie contained in the draft LTIAP which will make the offer of assured delivery unusable. Unless BPA changes the four major provisions discussed in this section, WWP would expect that utilities will pursue other transmission alternatives. Thus, to the extent BPA is actually concerned over the loss of potential firm power markets, BPA would be exposed to the risks set forth in cases 3 and 4 of the Pacific Northwest Utilities Conference Committee Study of the impacts of the draft LTIAP on BPA's revenues. A copy of the July 17, 1987 summary of the PNUCC study of seasonal exchange impacts upon BPA is submitted separately for the record.

1) **Use Your Own First.** The proposal in the draft LTIAP that utilities would have their assured delivery amounts decremented in the event that in the future such utilities obtained new transmission paths to the Pacific Southwest

effectively precludes use of the BPA Intertie. The proposal appears designed to make the offer of assured access illusory.

New transmission paths to the Pacific Southwest, if undertaken, will be based upon the economics of new firm transactions. These new transactions would be in addition to those firm transactions already being transmitted by assured delivery on the Pacific Intertie. The decrement proposed by BPA serves only to make the assured delivery under BPA's LTIAP unusable. Obviously, a Southwest utility desiring to do business with WWP over the Pacific Intertie has no control over the possibility that WWP might, in the future, obtain additional transmission access somewhere to the Pacific Southwest. Thus, any truly firm contract over the Pacific Intertie under such a policy is not possible. Firm power contracts could not be negotiated at firm power prices, and a seasonal exchange could not be depended upon to avoid the construction or acquisition of new resources.

Moreover, the enabling legislation makes no reference to any such condition. The authority of BPA to impose this condition on Intertie use is highly suspect. If BPA's purpose in suggesting such a condition is to discourage competitive new transmission paths to the Pacific Southwest, the policy BPA has chosen is unwise, even if it were legally authorized. WWP expects BPA customers would be encouraged by such a policy to do everything possible in order to obtain new and separate transmission paths upon which they could contract upon a firm basis, not subject to decrement, and thereby obtain the planning reliability that is absolutely necessary in meeting their firm power requirements.

WWP believes that it is fair for BPA to give some consideration, under its authority to offer non-discriminatory use of excess capacity on the Pacific Intertie to the ownership by investor-owned utilities (or in the future by other utilities) of capacity on the Pacific Intertie to the same market (utility) for which service is requested through use of federal Intertie capacity. However, this consideration should be prospective only

and should not involve a decrement of firm Intertie capacity already under contract.

2) Fish & Wildlife. The BPA has proposed to reduce Intertie access for Scheduling Utilities which own or acquire the output of a hydroelectric project within certain protected areas. While BPA would largely rely on the Northwest Power Planning Council's proposed "Protected Areas" designation, the listing of affected stream reaches and projects would be subject to modification by BPA. WWP objects to several aspects of these proposed fish and wildlife provisions of the draft LTIAP and respectfully recommends BPA modify or retract the provisions, as discussed herein.

The BPA's reference to and reliance upon the Council's proposed "Protected Areas" program is premature. The Council has yet to decide the appropriateness of adopting such a program. To what extent protected area designations would be utilized by the Council in regional energy planning also remains to be established. The public cannot fairly assess and comment on the appropriateness of this aspect of the draft LTIAP since the protected area designations the BPA proposes to rely on have not been formally adopted. How BPA's designation may differ from the Council's is entirely unknown. WWP also objects to the draft LTIAP's provisions which would link Intertie access to the geographic location of hydroelectric projects. These locations would be based upon narrowly-focused environmental information developed by a few special interests rather than any comprehensive consideration of individual project circumstances. The BPA's adoption of its own protected areas designation would protect specific BPA interests only, without regard for the complete record of facts at a given location or the overall public interest. The opportunity this would create for precedent setting discretionary denial of services cannot be accepted.

The draft LTIAP continues the proposed reduction of Intertie access to Scheduling Utilities who acquire the output of hydroelectric projects developed by others in areas disagreeable to BPA. This aspect of the policy would discriminate against

Scheduling Utilities whose only association with such projects is a power purchase contract which more often than not is entered into under the mandate of PURPA (Public Utilities Regulatory Policy Act of 1978). The stated expectation of the BPA that avoided cost structures would be modified for PURPA projects cannot be relied upon. State utility commissions alone are authorized to establish avoided cost rates. Even if accounted for, the uncertainty this provision would introduce into firm contracts and its consequent negative impact to the value of such contracts is unfair. The mere possibility of such penalties imposes a "chilling" effect upon possible firm Intertie transactions and the penalty could come at a time when the California purchaser is the party most severely impacted by the decrement of Intertie capacity.

The inherent injustice of penalizing utilities for the actions of unrelated parties should be obvious, especially where the utilities only association is contractual and established under federal law. This aspect of the draft LTIAP must be corrected by exempting Scheduling Utilities from Intertie access reductions where the output of the project in question is acquired under PURPA. That this exemption would be of little probable consequence to future hydroelectric development is substantiated by the abundant regulatory mechanisms constraining such projects. The effectiveness of existing controls at minimizing the likelihood undesirable projects would ever be developed in the first place was concisely described in a January 19, 1988 letter from the National Marine Fisheries Service to Mr. Walt Pollock of BPA.

The fish and wildlife provisions of the draft LTIAP centered around the protected areas concept as proposed by the BPA are both unnecessary and unauthorized. The appropriate balance of environmental values at a given hydroelectric project location is established by existing federal licensing processes under the Federal Power Act. The Electric Consumer's Protection Act of 1986 (ECPA) amended the Federal Power Act to substantially strengthen the standing of environmental considerations in

licensing decisions. Notwithstanding any opinion on the approach the FERC may employ in implementation, these are the mechanisms established by Congress to assure: 1) the essential element of due process for all parties interested in a particular project; and 2) a proper balancing in the overall public interest. The BPA's effort in the draft LTIAP to extend a measure of independent control over existing non-federal projects to protect singular BPA interests is confiscatory in nature and would defeat the balance of interests intended by Congress in the licensing process.

The protected areas concept as envisioned by most, if not all, parties has been intended to apply exclusively to presently undeveloped stream reaches and not to modification or relicensing of existing projects. This understanding was confirmed by Mr. Rick Applegate (Councils Fish and Wildlife Division Director) and not contested by any party present at BPA's January 20th transcribed public meeting in Portland, Oregon, concerning the fish and wildlife provisions of the draft LTIAP. The present proposal to impose sanctions upon existing, non-federal projects which happen to fall within a protected area is directly in conflict with the intended applicability of this concept.

With respect to existing projects, BPA is best advised to: 1) rely on established mechanisms to represent its interests; and 2) abide by the resulting outcome ultimately sustained by proper authorities. In this way, BPA will properly fulfill its primary role of providing effective, non-discriminatory transmission and power marketing services while assuring environmental considerations are fully and fairly considered. This approach will allow BPA to avoid becoming a de facto regulatory body and the contentious, litigious situation such positioning would create.

The BPA's concern that exclusive reliance on intervention in federal licensing proceedings may insufficiently protect BPA fish and wildlife concerns or investments is without foundation. Like BPA, the FERC is equally required to take account of the Fish and Wildlife Program developed pursuant to the Northwest Power Act

and to implement its provisions to the extent practicable in coordination with other governmental agencies [Section (4)(h)(11)]. The Fish and Wildlife Program's standing as a comprehensive plan under ECPA [Section 3(b), see also, 18 CFR Chptr. 1, Part 4.38(f)] reinforces FERC's obligations in this regard. Even absent this status, FERC must equally consider all relevant issues, giving due weight to the facts. It is therefore improbable the BPA's interests will not be fairly accounted. Moreover, if the BPA or others were ever to disagree, the FERC's findings are subject to court challenge under ECPA. The existing mechanisms of law and regulations assure BPA's interests can be fully and fairly addressed.

As a matter of policy, there is no need for the BPA to do more than rely on established processes to fully represent its interest. More importantly, BPA is not authorized to independently regulate any party or enforce environmental regulations. With the recent changes in licensing procedures and requirements brought by ECPA, the FERC remains the only agency empowered to regulate water resource development and operation. The mechanisms established by Congress under the Federal Power Act, as amended, to establish the terms of non-federal hydroelectric development are exclusive. Had Congress intended for the BPA to also have environmental oversight, such authority would have been included in either the Northwest Power Act or ECPA. Instead, Congress explicitly provides in the Northwest Power Act that nothing therein is intended to affect existing law or impose new obligations on existing projects operating under such law [Section (4)(h)(1)(b)]. The draft LTIAP would directly contradict this statute to the extent the BPA imposed its proposed protected areas concept to existing projects

Earlier precedent set by the BPA supports the fact that the BPA's fish and wildlife authorities are limited. Specifically, the BPA concluded in its September 1981 Environmental Report (ER) concerning power sales contracts under the Act: "Unlike other federal and state agencies, BPA is not authorized and does not wish to be put in the position of having to monitor or enforce

customers' compliance with applicable environmental laws" (ER, Page 2-5). Further, "Bonneville agreed to rely on its existing remedies at law to recover any damages incurred by the ratepayers of Bonneville" due to non-compliance with environmental provisions of these contracts (ER, page 2-7), such a breach based upon a court determination after final appeals (ER, page 2-6). BPA went on to acknowledge that "the legal imposition of constraints on non-federal projects can occur only through modification of a FERC operating license" (ER, page 2-7). Finally, BPA interpreted the fish and wildlife provisions of the contract specifically confirming that "this contract shall not expand, impair or in any way alter the purchaser's legal obligations related to fish and wildlife established in a license or order issued by the Federal Energy Regulatory Commission" (ER, page 2-8). While BPA is renewing its environmental assessment of the Power Sales Contracts due to procedural irregularities set forth in the Forelaws decision, the substance of BPA's comments are as accurate today as they were in 1981.

The BPA's assertion that the recent decision of the Ninth Circuit Court of Appeals, California Energy Commission vs. BPA, Case No. 84-7836, confirms BPA's absolute authority to restrict Intertie access for fish or wildlife purposes overextends the meaning of the finding. The Court ruled that it was appropriate for the BPA to consider excluding new resources in the Near Term LTIAP. Northwest interests were not represented in this case and the Court specifically reserved a decision on whether an absolute exclusion of new resources in the LTIAP would be permissible. The Court's finding in no way confirms any BPA authority to exercise sanctions independent of due process, counter to other provisions of law, and in a manner pre-emptory of another federal agency's responsibilities. As now written, the draft LTIAP would essentially force a Scheduling Utility to accept the BPA's fish and wildlife terms for select projects or risk losing economically essential access to the Intertie. Denying Intertie access for those not accepting BPA's terms for non-federal projects circumvents established federal licensing processes,

abridges the authority of the FERC without legal foundation, and discriminates against Scheduling Utilities whose operation of such projects is otherwise within the law. That BPA cannot affect a legally authorized operation in this manner is assured by the Northwest Power Act [Section (4)(g)(2)(c)].

Mitigation. The extent to which users of assured delivery on the Intertie should be required to mitigate for lost transmission capacity previously available to BPA should be limited to cases of actual displacement of federal non-firm Intertie use. Consideration of net wheeling revenues could be an appropriate offset to such mitigation, but this should only be to the extent that increased transmission revenues indirectly reduce BPA firm power costs within BPA's rate design process. The concept of mitigation should not become a precedent for market-based transmission rates or for a co-mingling of the revenue requirements for transmission and power marketing services. It should be noted that from the standpoint of cash receipts, BPA's studies show that wheeling revenues from investor-owned utilities' seasonal exchanges would provide a net enhancement of BPA's total revenues.

As WWP has proposed in the past, a contractual provision similar to that contained in the wheeling agreement for the Edison exchange sufficiently protects BPA against the risk of over allocation of firm Intertie capacity to exclusion of federal non-firm requirements. WWP has proposed that this mitigation measure be extended to all non-firm users of the Intertie where BPA undertakes a pro rata allocation of non-firm Intertie capacity. This proposal thus has a fairness advantage over any proposal that attempts to implement mitigation measures through the BPA surcharge collected in BPA rates for transmission service.

Arguments over the type of mitigation required for potential firm power sales to "displaced" markets have apparently received serious consideration from BPA. WWP views such mitigation as excessive and unauthorized. In the interest of having a

simplified mitigation proposal, however, WWP has indicated to BPA its willingness to consider a per kilowatt hour surcharge which would be fixed for the life of an assured delivery contract and which would be set in an amount reasonably related to BPA's loss of secondary revenues due to seasonal exchanges or firm sales. BPA's development of this concept into a negotiation of the amount of mitigation necessary to satisfy BPA's customer demands to keep captive all power markets presently available to BPA is unacceptable.

Equally unacceptable is the notion that such a charge would be subject to a section 7(i) rate adjustment proceeding at periodic intervals of not less than five years under the Northwest Power Act. Unless the costs associated with firm Intertie access is predictable by being based either upon the costs of transmission service itself, or upon such cost with a fixed mitigation adder or formula in order to account for the potential over allocation of firm versus non-firm use, long-term firm power exchanges and sales will not be achievable. Utilities simply will not subject these contracts to periodic surcharges by BPA reviewed and established in rate case proceedings and designed to collect "opportunity costs" of hypothetically displaced firm power transactions. Even a charge based upon presumed non-firm sales would be subject to arguments over methodology if left to future rate cases. For example, BPA's estimate of lost non-firm revenues from seasonal exchanges exceeds that which was made for this hearing by the PNUCC. In any case, BPA should retain the option to consider case by case mitigation measures which are individually negotiated and which adequately protect BPA's non-firm revenues.

WWP also opposes mitigation measures whereby mitigation itself becomes a more favorable market for BPA than non-firm energy sales to the Southwest. Examples from the initial draft LTIAP are the proposed restriction upon cash-out provisions in seasonal exchange agreements which require energy returns to the north, and the flexibility to declare Condition 1 to recover a standard non-firm rate for mitigation when the rate set by the

market would be substantially lower. Both of these measures would have BPA recover more than the revenues necessary to hold BPA harmless from an over-allocation of assured delivery compared to BPA's non-firm requirements.

Amount of Assured Access. The amount of assured access offered by BPA in the draft LTIAP, 800 MW, is insufficient. WWP anticipates requiring 150 MW for the Pacific Gas and Electric Exchange and 60 MW for the Edison exchange renewal. In addition, WWP has 93 MW of firm surplus available for sale as shown on BPA's Exhibit B calculations. Montana Power Company is to be allocated 105 MW on a priority basis for export of its Colstrip 4 Project under Section 9(i)(3) of the Northwest Power Act. These transactions alone total 408 MW. It is the understanding of WWP that Pacific Gas and Electric is interested in another 500 MW of seasonal exchanges with other Northwest generating utilities. Obviously, there is a likelihood that the 800 MW ceiling could be reached soon, especially considering the many other utilities expressing and interest in conducing business over the Intertie.

Given that BPA is proposing to require mitigation for its loss of transmission capacity for secondary sales, there appears to be no sound reason for the limit. Even assuming that BPA is correct in considering loss of non-firm revenues in its LTIAP analysis, that impact is entirely mitigated by either the ICP proposal or a surcharge fixed at the level of actual net secondary sales losses due to assured delivery allocations. BPA does not need to establish an arbitrary low limit on exchanges and sales. Such limitations suggest that the purpose of the LTIAP is to keep the potential seasonal exchange markets and sales markets in California captive for BPA to the extent markets exceed 800 MW.

The limit unnecessarily raises issues regarding treatment of competing applications. WWP has diligently sought assured Intertie access since 1983. The seasonal exchange contracts for which capacity is sought are executed and on BPA's table. BPA is already familiar with the operation of the Edison contract. On

the basis of being first in time and in view of the experience BPA has with WWP seasonal exchange contracts, WWP would expect that its requests would be granted preference under any apportionment procedure. However, the principal consideration ought to be that no apportionment procedure for competing applications is necessary. Where BPA's costs are sufficiently paid or mitigated there is no need for a limit beyond the federal requirement for firm Intertie capacity. WWP therefore strongly opposes the 800 MW ceiling and the suggestion that an apportionment mechanism might be needed as currently stated in the draft LTIAP. WWP also opposes any constraint upon seasonal exchanges based upon summertime FELCC under the Pacific Northwest Co-ordination Agreement. Such matters of contract administration are appropriately left to the contract operating committees.

WWP offers the following comments on other aspects of the draft LTIAP which support the draft policy or offer suggestions for improvement.

Non-Firm Allocation. WWP fully supports a pro rata non-firm allocation of the available Intertie capacity, either along the lines of current operating practices or with the modifications proposed by BPA at the technical meeting of January 27, 1988. WWP's support assumes that BPA will develop a non-firm energy rate which will meet the market. WWP rejects, however, the position of some BPA customers that open access should be implemented. WWP also desires to comment upon the suggestion of Justice Norris in the recent CEC v. BPA, dissent that at least as to the non-federal portion of non-firm use of the Intertie, certain antitrust considerations do not permit an allocation mechanism.

The draft LTIAP, as revised on January 27, 1988, does not allocate the California market. The policy allocates a facility, specifically the Intertie itself. This is entirely consistent with the legislative and operating history of the Intertie, which requires "widespread use" and was designed not to allow any single party to monopolize the facility. Non-federal utilities

receiving allocations of the Intertie are not in a position to establish or control the market price for non-firm energy.

The allocated share of non-firm Intertie capacity does not differ in any material degree from the portions of the Intertie which are owned by Pacific Power & Light Company (PPL) and Portland General Electric Company (PGE). If the use of the non-federal portion of the Intertie is subject to rules requiring competitive bidding or open access, so also would the portions of the Intertie owned by PP&L and PGE be subject to the same rules. If the PP&L/PGE owned portions of the Pacific Intertie were subject to these rules, similarly we would find many other transmission interconnections between utilities or regions which would be indistinguishable from the Pacific Intertie.

At present, federal law, as administered by FERC does not require open access to owned or controlled transmission facilities upon a competitive bidding scheme nor is access mandated in the absence of an essential facility finding. It is possible that the utility industry will move further in that direction by regulation, but such a result is speculative at this point in time.

For purposes of the BPA Intertie Access Policy, the non-firm allocation of Intertie capacity simply adds to the transmission resources of the many generating utilities that use the Intertie. The same basic rules should apply to this resource as to other transmission resources owned by non-federal utilities.

In addition, there has been no demonstration that non-federal capacity on the Intertie goes unused due to excessively high and unreasonable declarations. The statements in this proceeding indicate that this has not been a problem. In the BPA 1987 Transmission Rate proceeding, BPA has adopted a rate charge for unused declarations which WWP felt was unnecessary and flawed. Nonetheless this charge would further discourage over-allocation of non-firm Intertie capacity. WWP requests BPA to make the unused declaration charge a part of the LTIAP record.

The real issue with regard to non-firm allocation is whether BPA is required by law to compete in order to use a share of

Intertie capacity for its non-firm generation. (Non-federal investor-owned utilities regulated by FERC currently are not subject to and such requirement for their owned facilities.) While WWP is willing to accept a full competitive Intertie, WWP does not understand current federal law as construed by the Ninth Circuit Court of Appeals to require BPA to submit its share of the Intertie to diminution by competitive pricing. Thus, the pro rata allocation mechanism proposed by BPA is entirely consistent with existing law and is designed to insure that there is wide spread use of this important regional resource among all generating utilities that have non-firm power to sell in the California market.

WWP also supports the deletion of any hydroelectric capacity cap on non-firm allocation. Installed hydroelectric capacity bears absolutely no relationship to the total ability of a utility to sell non-firm energy (hydroelectric or thermal) in surplus markets. The hydroelectric cap unfairly discriminates against utilities with significant amounts of low incremental cost thermal resources by arbitrarily restricting their access to the Intertie.

In conclusion it is the position of WWP that the draft LTIAP does not provide usable access to the Pacific Intertie. The LTIAP must be revised in a manner which is consistent with the foregoing comments.

12/31/87
KH

Attachment
LTIAP 3 122

The Washington Water Power Company
Estimated First-Year Cost of 150 Mw of CTs In Service on July 1, 1991

Assumptions:

Combination of Combustion Turbines Equal to 150 Mw
Installed Cost/Kw - $250 Excluding AFUDC (Jan 1985 $) $305/Kw (Jul 1991 $)
Fixed O & M at $1.30/Kw/Yr (Jan 1985 $) $1.68/Kw/Yr (Jan 1992 $)
Variable O & M at $2.10/Mwh (Jan 1985 $) $2.71/Mwh (Jan 1992 $)
Capital Additions at $1.30/Kw/Yr (Jan 1985 $) $1.75/Kw/Yr (Jan 1992 $)
Depreciable Life = 20 Years
Hours of Operation = 200/Year
Heat Rate = 10,700 Btu/Kwh
Natural Gas Cost = $0.30304 / Therm (WA Schedule 131)

Year	Capital and O & M Cost Recovery ($000s) (a)	Energy (Mwh) (b)	Fuel Cost ($/Mwh) (c)	Variable O & M ($/Mwh) (d)	Energy Cost ($000s) (e)	Total Cost ($000s) (f)
1991-92	$11,361	30,000	32.4	2.7	$1,053	$12,414

Exhibit 1

THE WASHINGTON WATER POWER COMPANY
REQUIREMENTS AND RESOURCES

11/18/87

Figures are megawatts.	1988-89 Peak	1988-89 Average	1989-90 Peak	1989-90 Average	1990-91 Peak	1990-91 Average	1991-92 Peak	1991-92 Average	1992-93 Peak	1992-93 Average	1993-94 Peak	1993-94 Average	1994-95 Peak	1994-95 Average
REQUIREMENTS														
1 System Firm Loads (11/11/87)	1465	806	1489	820	1512	836	1534	850	1559	864	1582	878	1606	893
2 Exports -Puget Sound Power & Light Co	55	28	55	28	55	28	0	0	0	0	0	0	0	0
3 -Seattle City Light	0	15	0	15	0	0	0	0	0	0	0	0	0	0
4 -Pacific Gas and Electric Co	0	0	0	0	0	6	0	25	0	25	0	25	0	25
5 -San Diego Gas & Electric Co	0	7	0	0	0	0	0	0	0	0	0	0	0	0
6 -So California Edison Co	0	8	0	6	0	0	0	0	0	0	0	0	0	0
7 -Sandpoint PP&L	5	2	5	2	5	2	5	2	5	2	5	2	5	2
8 -WIDCo PP&L	8	5	8	5	8	5	0	3	0	0	0	0	0	0
9 -BPA Exchange WNP #3	0	27	0	27	0	27	0	27	0	27	0	27	0	27
10 TOTAL REQUIREMENTS	1533	898	1557	903	1580	904	1539	907	1564	918	1587	932	1611	947
RESOURCES														
11 System Hydro	919	343	919	343	919	343	919	343	919	343	919	343	919	343
12 Contract Hydro	221	107	221	107	221	107	221	107	221	104	221	104	221	104
13 Canadian Entitlement Return	-13	-4	-13	-4	-13	-3	-12	-3	-11	-3	-10	-3	-9	-3
14 Restoration	0	3	0	3	0	3	0	3	0	3	0	3	0	3
15 Small Hydro	7	8	8	9	9	9	9	9	9	9	9	9	9	9
16 Total Hydro	1134	457	1136	458	1136	459	1137	459	1138	456	1139	456	1140	456
17 Cogeneration -Other	10	8	10	8	10	8	10	8	10	8	10	8	10	8
18 Combustion-Turbine NE	68	27	68	27	68	27	68	27	68	27	68	27	68	27
19 Imports -CSPE	48	18	49	17	49	16	45	16	40	15	36	14	32	14
20 -Pacific Gas and Electric Co	0	0	0	0	0	0	150	25	150	25	150	25	150	25
21 -San Diego Gas & Electric Co	0	12	0	0	0	0	0	0	0	0	0	0	0	0
22 -So California Edison Co	80	8	80	0	0	0	0	0	0	0	0	0	0	0
23 -Grant PUD	50	0	50	0	0	0	0	0	0	0	0	0	0	0
24 -BPA (Suppl & Entitlem Capacity)	26	0	26	0	26	0	24	0	21	0	19	0	17	0
25 -BPA (Contract #39216)	80	66	80	66	77	66	77	66	77	66	77	66	77	66
26 -BPA Exchange WNP #3	82	27	82	27	82	27	82	27	82	27	82	27	82	27
27 -B C Hydro	0	17	0	17	0	17	0	0	0	0	0	0	0	0
28 Thermal -Centralia	192	158	192	158	192	158	192	158	192	158	192	158	192	158
29 -Kettle Falls	47	40	47	40	47	40	47	40	47	40	47	40	47	40
30 -Colstrip #3	105	77	105	77	105	77	105	77	105	77	105	77	105	77
31 -Colstrip #4	105	77	105	77	105	77	105	77	105	77	105	77	105	77
32 TOTAL RESOURCES	2027	994	2030	982	1897	972	2042	980	2035	976	2030	975	2025	975
33 Reserves	-237	0	-239	0	-241	0	-243	0	-246	0	-248	0	-251	0
34 NET RESOURCES	1790	994	1791	982	1656	972	1799	980	1789	976	1782	975	1774	975
35 SURPLUS OR DEFICIT	257	96	234	78	76	68	260	73	225	58	195	43	163	28
36 Potential Small Power (PURPA)	1	3	4	6	4	8	4	8	4	8	4	8	4	8

Exhibit

THE WASHINGTON WATER POWER COMPANY
REQUIREMENTS AND RESOURCES

11/18/87

Figures are megawatts.	1995-96 Peak	1995-96 Average	1996-97 Peak	1996-97 Average	1997-98 Peak	1997-98 Average	1998-99 Peak	1998-99 Average	1999-00 Peak	1999-00 Average	2000-01 Peak	2000-01 Average	2001-02 Peak	2001-02 Average
REQUIREMENTS														
1 System Firm Loads (11/11/87)	1631	907	1640	919	1660	930	1680	942	1700	955	1721	968	1742	981
2 Exports -Puget Sound Power & Light Co	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3 -Seattle City Light	0	0	0	0	0	0	0	0	0	0	0	0	0	0
4 -Pacific Gas and Electric Co	0	25	0	25	0	25	0	25	0	25	0	25	0	25
5 -San Diego Gas & Electric Co	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6 -So California Edison Co	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7 -Sandpoint PP&L	0	1	0	0	0	0	0	0	0	0	0	0	0	0
8 -WIDCo PP&L	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9 -BPA Exchange WNP #3	0	27	0	27	0	32	0	32	0	32	0	32	0	32
10 TOTAL REQUIREMENTS	1631	960	1640	971	1660	987	1680	999	1700	1012	1721	1025	1742	1038
RESOURCES														
11 System Hydro	919	343	919	343	919	343	919	343	919	343	919	343	919	343
12 Contract Hydro	197	81	197	81	197	81	197	81	197	81	197	81	197	81
13 Canadian Entitlement Return	-7	-2	-6	-2	-6	-3	-6	-4	-8	-5	-8	-5	-8	-5
14 Restoration	0	3	0	3	0	3	0	3	0	3	0	3	0	3
15 Small Hydro	9	9	9	9	9	9	9	9	9	9	9	9	9	9
16 Total Hydro	1118	434	1119	434	1119	433	1119	432	1117	431	1117	431	1117	431
17 Cogeneration -Other	10	8	10	8	10	8	10	8	10	8	10	8	10	8
18 Combustion-Turbine NE	68	27	68	27	68	32	68	32	68	32	68	32	68	32
19 Imports -CSPE	28	13	23	12	23	12	20	9	10	5	9	5	9	5
20 -Pacific Gas and Electric Co	150	25	150	25	150	25	150	25	150	25	150	25	150	25
21 -San Diego Gas & Electric Co	0	0	0	0	0	0	0	0	0	0	0	0	0	0
22 -So California Edison Co	0	0	0	0	0	0	0	0	0	0	0	0	0	0
23 -Grant PUD	0	0	0	0	0	0	0	0	0	0	0	0	0	0
24 -BPA (Suppl & Entitlem Capacity)	14	0	12	0	11	0	12	0	17	0	16	0	16	0
25 -BPA (Contract #39216)	77	66	0	0	0	0	0	0	0	0	0	0	0	0
26 -BPA Exchange WNP #3	82	27	82	27	82	32	82	32	82	32	82	32	82	32
27 -B C Hydro	0	0	0	0	0	0	0	0	0	0	0	0	0	0
28 Thermal -Centralia	192	158	192	158	192	158	192	158	192	158	192	158	192	158
29 -Kettle Falls	47	40	47	40	47	40	47	40	47	40	47	40	47	40
30 -Colstrip #3	105	77	105	77	105	77	105	77	105	77	105	77	105	77
31 -Colstrip #4	105	77	105	77	105	77	105	77	105	77	105	77	105	77
32 TOTAL RESOURCES	1996	952	1913	885	1912	894	1910	890	1903	885	1901	885	1901	885
33 Reserves	-253	0	-254	0	-256	0	-258	0	-260	0	-262	0	-264	0
34 NET RESOURCES	1743	952	1659	885	1656	894	1652	890	1643	885	1639	885	1637	885
35 SURPLUS OR DEFICIT	112	-8	19	-86	-4	-93	-28	-109	-57	-127	-82	140	-105	-153
36 Potential Small Power (PURPA)	4	8	4	8	4	8	4	8	4	8	4	8	4	8

THE WASHINGTON WATER POWER COMPANY
REQUIREMENTS AND RESOURCES

Figures are megawatts.		2002-03		2003-04		2004-05		2005-06		2006-07		2007-08	
		Peak	Average	Peak	Average	Peak	Average	Peak	Average	Peak	Average	Peak	Average
REQUIREMENTS													
1 System Firm Loads (11/11/87)		1766	995	1786	1009	1808	1022	1831	1036	1852	1050	1874	1061
2 Exports	-Puget Sound Power & Light Co	0	0	0	0	0	0	0	0	0	0	0	0
3	-Seattle City Light	0	0	0	0	0	0	0	0	0	0	0	0
4	-Pacific Gas and Electric Co	0	25	0	25	0	25	0	25	0	25	0	25
5	-San Diego Gas & Electric Co	0	0	0	0	0	0	0	0	0	0	0	0
6	-So California Edison Co	0	0	0	0	0	0	0	0	0	0	0	0
7	-Sandpoint PP&L	0	0	0	0	0	0	0	0	0	0	0	0
8	-WIDCo PP&L	0	0	0	0	0	0	0	0	0	0	0	0
9	-BPA Exchange WNP #3	0	32	0	32	0	32	0	32	0	32	0	32
10 TOTAL REQUIREMENTS		1766	1052	1786	1066	1808	1079	1831	1093	1852	1107	1874	1121
RESOURCES													
11 System Hydro		919	343	919	343	919	343	919	343	919	343	919	343
12 Contract Hydro		197	82	197	82	197	82	142	61	142	61	142	61
13 Canadian Entitlement Return		-8	-5	-13	-5	-13	-5	-10	-4	-10	-4	-10	-4
14 Restoration		0	3	0	3	0	3	0	3	0	3	0	3
15 Small Hydro		9	9	9	9	9	9	9	9	9	9	9	9
16 Total Hydro		1117	432	1112	432	1112	432	1060	412	1060	412	1060	412
17 Cogeneration	-Other	10	8	10	8	10	8	10	8	10	8	10	8
18 Combustion-Turbine	-NE	68	32	68	32	68	32	68	32	68	32	60	32
19 Imports	-CSPE	8	4	0	0	0	0	0	0	0	0	0	0
20	-Pacific Gas and Electric Co	150	25	150	25	150	25	150	25	150	25	150	25
21	-San Diego Gas & Electric Co	0	0	0	0	0	0	0	0	0	0	0	0
22	-So California Edison Co	0	0	0	0	0	0	0	0	0	0	0	0
23	-Grant PUD	0	0	0	0	0	0	0	0	0	0	0	0
24	-BPA (Suppl & Entitlem Capacity)	16	0	0	0	0	0	0	0	0	0	0	0
25	-BPA (Contract #39216)	0	0	0	0	0	0	0	0	0	0	0	0
26	-BPA Exchange WNP #3	82	32	82	32	82	32	82	32	82	32	82	32
27	-B C Hydro	0	0	0	0	0	0	0	0	0	0	0	0
28 Thermal	-Centralia	192	158	192	158	192	158	192	158	192	158	192	158
29	-Kettle Falls	47	40	47	40	47	40	47	40	47	40	47	40
30	-Colstrip #3	105	77	105	77	105	77	105	77	105	77	105	77
31	-Colstrip #4	105	77	105	77	105	77	105	77	105	77	105	77
32 TOTAL RESOURCES		1900	885	1871	881	1871	881	1819	861	1819	861	1819	861
33 Reserves		-267	0	-269	0	-271	0	-273	0	-275	0	-277	0
34 NET RESOURCES		1633	885	1602	881	1600	881	1546	861	1544	861	1542	861
35 SURPLUS OR DEFICIT		-133	-167	-184	-185	-208	-198	-285	-232	-308	-246	-332	-260
36 Potential Small Power (PURPA)		4	8	4	8	4	8	4	8	4	8	4	8

11/18/87

THE WASHINGTON WATER POWER COMPANY
REQUIREMENTS AND RESOURCES

Source and Description of Significant Data:

Line 1	System Loads	Estimate 11/11/87.
Line 3	Seattle City Light	1987-88 through 1989-90 "Lake Union Replacement Energy Agrmt March 1985" Peak 0; Energy 14.8 Avg Mw for 5 months Feb-Jun each year.
Line 4	Pacific Gas and Electric Co	Commences 5/25/91. Exchange--in summer WWP to PGandE after 5/24 for 126 days (18 weeks); in winter PGandE to WWP after 11/11 for 126 days (18 weeks). Requirements: To PGandE in summer ....Peak (Jan) 0; energy 1990-91 (1 Mo) 6 mw; 1991-92 thereafter 25 avg mw.
Line 11	System Hydro	Peak at 919 and Energy at 343 all years. ('87 NRF shows Energy at 342 starting 1992-93 and thereafter) but kept flat in this table.
Line 12	Contract Hydro	From '87 NRF without Upriver. Includes deduction for fish flush. Reflects reduction of Priest Rapids allocation which expires 10/31/05.
Line 13	Canadian Entitlement Return	From '87 NRF which includes "new" Return when Canadian reservoirs drop out. Duncan first in 4/98. Year 2005-06 has been reduced to reflect Priest Rapids WWP allocation which expires 10/31/05.
Line 14	Restoration	From 1987-88 Final Regulation.
Line 15	Small Hydro	Includes Upriver at 6.1 Peak & 5.2 Avg all years. PURPA small hydro resources: 1988-89 0.4 Pk, 2.4 Avg; 1989-90 and thereafter 2.9 Pk, 4.2 Avg. as reported in 11/11/87 PNUCC data submittal for 1988-89 NRF (based on Gary Lawson's 8/7/87 Tables).
Line 19	CSPE	WWP after losses. (Energy lossos at 3.0; peak losses at 4.5)
Line 20	Pacific Gas and Electric Co	Resources: 1991-92 and thereafter, Jan Peak 150 Mw; Energy 25 Avg Mw. Also see line 6 above.
Line 23	Grant PUD	WWP terminated Grant PUD Peaking Contract effective November 1990.
Line 24	Suppl & Entitlement Capacity	WWP after losses. Includes "new" Return starting 1998-99 to reflect dropout of Canadian reservoirs. Assumes no renewal by BPA after 3/31/03 when Canadian Entitlement Agrmts expire.
Line 27	B C Hydro	B C Hydro reflects new April 1987 Agreement for 1989 and 1990 years.
Line 28	Centralia	From '87 NRF.
Line 29	Kettle Falls	From '87 NRF. Peak 46.5, Energy 39.5 (at 85% Plant Factor) rounded to Peak 47, Energy 40.
Lines 30 & 31	Colstrip #3 & #4	From '87 NRF.
Line 33	Reserves	10% Peak "cold-weather" reserves + 90 for generation realization and a portion of forced outage reserves. Reserves based on line 1, Peak.
Line 36	Potential Small Power (PURPA)	From Gary Lawson's Table 8/7/87 for "Potential Future Cogeneration and Small Power Production"

Attachment
LTINP 3-122

Washington Water Power

Gregory P. Prekeges
Manager
Resource Planning & Contracts

December 22, 1987

Mr. A. A. Harlow
Area Power Manager
Bonneville Power Administration
Spokane Area Office
U. S. Court House, Room 561
Spokane, WA 99201

Dear Mr. Harlow:

Enclosed is the Firm Resource Exhibit of The Washington Water Power Company as required under the terms of our Power Sales Contract.

The Exhibit is essentially the same as last year's submittal. Dropped from page 1 of 3 was the Othello combustion turbine which has been sold. Also found was an error in the date of resource removal for Chelan, which should have been 6/21/95 instead of 6/30/95 as shown last year. On page 2 of 3 we eliminated the Idaho Exchange which had a date of resource removal of 12/31/87, and changed the date of resource removal on the Grant Purchase from 5/1/91 to 5/1/90, due to a termination notice sent by the Company. Page 3 of 3 also reflects the removal of the Idaho Exchange.

The last page of our submittal, which is a "Summary of Information," is the same as last year's except that the 1987-88 year has been deleted and the 1994-95 year has been added. The firm resource capability for peak in the 1994-95 year shows a reduction due to the sale of the Othello combustion turbine. In addition, we have attached supporting data and the basic assumptions upon which the seventh-year load forecast is based.

Should you have any questions concerning the enclosed Firm Resource Exhibit, please do not hesitate to contact me.

Sincerely,

THE WASHINGTON WATER POWER COMPANY

By Gregory P. Prekeges
Gregory P. Prekeges
Manager, Resource Planning and Contracts

HDY/jr

Exhibit 3

Exhibit I, Page 1 of 3
Contract No. DE-MS79-81BP90428
The Washington Water Power Company
Effective at 2400 hours on
June 30, 1988

Firm Resource Exhibit

Name of Resource	Number of Units	Peak Capability (MW)	1/ Annual Plant Factor (%)	2/ Purchaser's Percent of Resource Dedicated to Firm Load Under this Agreement (%)	Date of Resource Addition	Date of Resource Removal
a. Generating Resources						
P.L. 96-501 5(b) (1) (A) Firm Resources						
Hydroelectric Resources						
Noxon	5	554.0		100.0	7/1/81	-
Cabinet Gorge	4	230.0		100.0	7/1/81	-
Post Falls	6	19.0		100.0	7/1/81	-
Upper Falls	1	10.0		100.0	7/1/81	-
Monroe Street	5	6.0		100.0	7/1/81	-
Nine Mile	4	18.0		100.0	7/1/81	-
Long Lake	4	72.0		100.0	7/1/81	-
Little Falls	4	36.0		100.0	7/1/81	-
Meyer Falls	2	1.0		100.0	7/1/81	-
Wells	10	820.0	5/	4.1	9/1/85	-
Chelan	2	54.0	5/	100.0	6/ 7/1/81	6/21/95
Rocky Reach	11	1267.0	5/	2.9	7/1/81	-
Wanapum	10	986.0	5/	8.2	9/1/83	-
Priest Rapids	10	912.0	5/	6.1	9/1/83	-
Other Than Hydroelectric Resources						
Northeast	1	68.0	1.0	100.0	7/1/81	-
Centralia	1	1313.0	70.0	15.0	7/1/81	-

Firm Resource Exhibit

Name of Resource	Supplier	Identifying Number 3/	Date of Resource Addition	Date of Resource Removal	Descriptive Remarks
b. Contractual Resources					
P. L. 96-501 5(b) (1) (A) Firm Resources					
Purchases					
CSPE	CSPE	14-03-47323	7/1/81	3/31/03	
Grant to WWP	Grant PUD		7/1/81	5/1/90	Winter Peak
Supplemental and Entitlement Cap.	Bonneville	14-03-47451 4/		4/	
		14-03-47453			
		14-03-47454			
		14-03-47455			
Restorations		14-03-48221	7/1/81	6/30/03	
So. Cal. Edison Exchange			7/1/81	3/1/90	Peak
Cogeneration	VaagenCo.		7/1/81	5/30/94	
Exchange w/San Diego			7/1/81	9/1/88	Peak For Energy

Firm Resource Exhibit

Name of Resource	Supplier	Identifying Number 3/	Date of Resource Addition	Date of Resource Removal	Descriptive Remarks
b. Contractual Resources					
P. L. 96-501 5(b) (1) (A) Firm Resources					
Obligations					
Canadian Entitlement Return	Purchaser	14-03-47451 4/		4/	
		14-03-47453			
		14-03-47454			
		14-03-47455			
Exchange w/San Diego			7/1/81	9/1/88	Peak for Energy
So. Cal. Edison Exchange			7/1/81	3/1/90	Peak

1/ At full reservoir for hydroelectric resources.
2/ Plant factor is required only for other than hydroelectric generating facilities.
3/ Purchaser's entitlement to a Firm Resource supplied pursuant to a contract purchase which is not tied to the capability of a generating project shall be determined from the contract identified herein.
4/ Purchaser's entitlement to Firm Resource is based on Purchaser's ownership of share of Priest Rapids, Wanapum, Rocky Reach, and Wells.
5/ Pre-encroached values.
6/ Local load will be removed from the capability before calculating Chelan's capability under this contract.

January 1, 1988

The Washington Water Power Company

Summary of Information Required Under Contract No. DE-MS-79-81BP90428

	Operating Year	Annual Firm Load Annual Peak (Mw)	Annual Firm Load Annual Energy (Avg. Mw)	Schedule of Annual Contracted Requirements Purchases Peak (Mw)	Schedule of Annual Contracted Requirements Purchases Energy (Avg. Mw)	Estimated Assured Capabilities of Firm Resources 5 (b) (1) (A) Peak (Mw)	5 (b) (1) (A) Energy (Avg. Mw)	5 (b) (1) (B) Peak (Mw)	5 (b) (1) (B) Energy (Avg. Mw)
1/	1988-89	1912	1016	0	0	1399	598	0	0
2/	1989-90	2027	1075	0	0	1398	592	0	0
3/	1990-91	1841	1002	0	0	1397	592	0	0
4/	1991-92	1676	924	0	0	1340	576	0	0
5/	1992-93	1679	928	0	0	1333	575	0	0
6/	1993-94	1673	918	0	0	1328	574	0	0
7/	1994-95	1606	893	0	0	1290	574	0	0

1/ WWP load estimate dated 11/03/81
2/ WWP load estimate dated 11/30/82
3/ WWP load estimate dated 12/02/83
4/ WWP load estimate dated 11/07/84
5/ WWP load estimate dated 12/17/85
6/ WWP load estimate dated 12/04/86
7/ WWP load estimate dated 9/21/87

THE WASHINGTON WATER POWER COMPANY

1987 LONG-TERM LOAD FORECAST

The Company has a contract with Data Resources, Inc. (DRI) to provide economic forecasts for the Spokane vicinity. The load forecasting methodology employed by the company is an integrated econometric/end-use method.

The 1987 Long-Term Load Forecast has a 10-year growth rate (from 1988-89 to 1998-99) of 1.6 percent compared to a rate of 1.9 percent for the same 10-year period last year.

In the residential sector, we expect to add about 18,000 new customers in the next decade. The overall residential growth rate for the 10-year period is 1.3 percent.

Commercial customers are expected to increase in number by 2,000 in 10 years. The 10-year growth rate averages 2.1 percent.

Industrial loads are expected to increase an average 1.5 percent per year.

The 1987 forecast of Peak Demand for January 1999 is 1680 megawatts, indicating a 10-year growth rate (from 1988-89 to 1998-99) of 1.4 percent.

I N D E X

TO DOCUMENTATION FOR WRITTEN COMMENTS OF
THE WASHINGTON WATER POWER COMPANY REGARDING BPA'S
LONG-TERM INTERTIE ACCESS POLICY

1 Copies of previous comments of The Washington Water Power Company regarding BPA's Intertie Access Policies

2 Power Exchange & Sales Agreement dated September 1, 1968, between The Washington Water Power Company and San Diego Gas & Electric Company; and related Transmission Agreement between The Washington Water Power Company and BPA, dated July 23, 1968

3 Capacity Exchange Agreement, dated June 1, 1980, between The Washington Water Power Company and Southern California Edison Company; and related Transmission Agreement between The Washington Water Power Comany and BPA, dated July 9, 1981

4 Requests for Intertie transmission services in relation to the Southern California Edison/Washington Water Power Capacity Exchange Agreement

5 Capacity and Energy Exchange Agreement, dated April 23, 1987, between The Washington Water Power Company and Pacific Gas and Electric Company

6 Correspondence regarding The Washington Water Power Company's request for Intertie transmission services for the Pacific Gas and Electric Company Capacity and Energy Exchange Agreement

7 Long-Term Power Sale Agreement between San Diego Gas & Electric Company and Portland General Electric, dated November 5, 1985;

Long-Term Power Sale Agreement between Portland General Electric and Western Area Power Administration, dated August 25, 1987; and

Long-Term Power Sale Agreement between Pacific Power & Light Company and Southern California Edison Company, dated June 30, 1987.

8 Report of the Secretary of the Interior to the House & Senate Appropriations Committees on the Pacific Northwest/Pacific Southwest Intertie; and

Statement by Charles F. Luce, Bonneville Power Administrator, Before the Public Works Subcommittee, U.S. Senate Appropriations Committee, June 4, 1963, Analyzing and Evaluating the Federal and Nonfederal Proposals for Construction and Use of All or Parts of the Proposed Pacific Northwest/Pacific Southwest Intertie

9 Report from Al Wright, Executive Director of Pacific Northwest Utilities Conference Committee, dated July 17, 1987

MARSH MUNDORF & PRATT
ATTORNEYS AT LAW . A PROFESSIONAL SERVICE CORPORATION

MILL CREEK CITY CENTER BUILDING
16000 BOTHELL-EVERETT HIGHWAY SUITE 160
MILL CREEK, WASHINGTON 98012
(206) 337-2384
SEATTLE (206) 742-4545
TELEDEX 2100 (206) 337-2386

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3.123
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
T 10S)

February 5, 1988

Public Involvement Coordinator
Bonneville Power Administration
P. O. Box 3621
Portland, Oregon 97208

Re: Long-Term Intertie Access Policy Comments

Dear Sir/Madam:

Enclosed you will please find the comments of the Western Public Agencies Group on the revised draft Long-Term Intertie Access Policy.

Very truly yours,

MARSH, MUNDORF & PRATT

Terence L. Mundorf

TLM:ps
enclosure

Attachment
LTIAP 3-123

COMMENTS OF THE WESTERN PUBLIC AGENCIES GROUP ON THE REVISED DRAFT LONG-TERM INTERTIE ACCESS POLICY

1. Introduction

The following comments are submitted by the Western Public Agencies Group (WPAG) on BPA's revised Draft Long-Term Intertie Access Policy (LTIAP). Being dependent on BPA for the bulk of their power supply, the WPAG utilities have a direct and immediate interest in the LTIAP. BPA has made a commendable effort to accommodate the desires of regional generating utilities to consummate interregional transactions on federal Intertie facilities. It is crucial, however, that these transactions not be allowed to deprive BPA of revenues which would otherwise be available to it. While fostering interregional cooperation is a worthwhile goal, it must be secondary to BPA's primary responsibilities of meeting its repayment obligation to the Treasury and selling power at the lowest rates consistent with sound business practices. It is only by doing so that BPA will ensure equitable treatment for all of its customers, generators and non-generators alike.

2. BPA Must Regulate Intertie Use Consistent With Its Statutory Responsibilities

The Intertie is a federal facility the stewardship of which has been entrusted to BPA. The Intertie was constructed to permit the transmission and interchange of energy between the Northwest and Southwest. The original justification for the Intertie was to ensure that BPA would have sufficient revenues to pay back the large federal debt incurred to build the Northwest hydro facilities. See, Department of Water and Power v. Bonneville Power Administration, 759 F.2d, 684, 692 (1985). As stated in the legislative history, the primary purpose of the Intertie was to permit BPA to raise additional revenues to put it on a sound financial footing. H.R. Rep. No. 590, 1964 U.S. Code Cong. and Ad. News at 3343.

Given the specific role the Intertie was to play in securing BPA's fiscal integrity, Congress set down statutory provisions which delineate who is to have access to the Intertie, and under what conditions. These statutes include the Bonneville Project Act (16 U.S.C. §832, et seq.), the Regional Preference Act (16 U.S.C. §837, et seq.), the Federal Columbia River Transmission Act (16 U.S.C. §838, et seq.) and the Northwest Power Act (16 U.S.C. §839, et seq.). These statutes establish two mandates with which BPA must comply when determining who may use the Intertie. As stated by the Ninth Circuit of Appeals:

> The first is that BPA is required to market power in a manner which ensures that the agency is self-supporting. Second, BPA is required to allocate use of federally-owned transmission facilities in a manner which accords preference first to transmission of federal power and then to transmission of other Northwest-generated power. (Department of Water and Power v. Bonneville Power Administration, 759 F.2d 684, 695, 1985).

Consistent with this statutory preference, BPA is required to reserve for itself sufficient Intertie capacity for its current and foreseeable future needs. Department of Water and Power v. Bonneville Power Administration, 759 F.2d 684, 692 (1985). To the extent that BPA permits nonfederal utilities' use of Intertie capacity displaces current or foreseeable federal transactions, these utilities must provide mitigation sufficient to put BPA in the same financial position it would have been in if it had exercised its priority to Intertie capacity. In short, nonfederal utilities granted Intertie access must fully reimburse BPA for the current and foreseeable federal transactions which they displace.

BPA's statutory rate directives also mandate that nonfederal utilities pay the full cost of using federal Intertie capacity, including revenue losses due to displaced federal sales. BPA has a statutory duty to sell federal power at the lowest rates consistent with prudent business practice (16 U.S.C. §838g). If BPA revenue losses due to nonfederal sales displacing federal sales are not reimbursed by generating utilities, they will be recouped by BPA through higher power rates to BPA's other customers. This will result in BPA's other customers paying higher firm power rates than necessary to subsidize nonfederal access to the Intertie. Such a situation would be inconsistent with BPA's duty to sell power at the lowest rates practicable.

In addition to BPA's statutory obligations, there are sound policy and equitable grounds why nonfederal utilities gaining Intertie capacity should bear the full cost of such access. From the policy standpoint, failure to charge nonfederal utilities the

full cost of the Intertie service provided will give them an inaccurate signal regarding the value of the Intertie capacity, and the potential benefit of the export transactions they may be considering. This could result in nonfederal utilities entering into transactions of marginal benefit to them, and detrimental to the region as a whole. From the equity standpoint, the generating utilities seeking Intertie access for seasonal exchanges have retail rates substantially lower than the average requirements customer of BPA. (Average retail rates of about 2.2¢/Kwh for public generators, versus 4.3¢/Kwh for non-generators). To suggest that BPA's requirements customers should pay higher wholesale rates to subsidize export transactions, which will primarily benefit the generating utilities, is simply unfair. It is only equitable that those utilities seeking access, and which already have low retail rates, pay the full cost of the service BPA is offering to them.

When judged against these statutory, policy and equity standards, the revised LTIAP falls short in a number of areas. These include:

1) Relying on an incomplete analysis of the financial impacts to BPA of granting Intertie access to nonfederal utilities. The analysis did not study the revenue loss to BPA of continuing the prorata sharing of nonfirm access, and the consequences of a delay or termination of the Third A.C.

2) Giving generating utilities firm access to the Intertie for exchanges and firm power sales, while only partially mitigating the revenue losses these transactions cause BPA.

3) Granting generating utilities Intertie capacity which is certain, while proposing only partial mitigation measures that are uncertain at best, and leaving the amount of mitigation BPA will actually receive subject to the vagaries of the market.

4) Sharing the available Intertie with generating utilities under Formula Allocation, rather than exercising its statutorily mandated preference to use all available Intertie to market federal energy.

5) Unfairly discriminating against non-scheduling generating utilities by depriving them of any access to the Intertie, and by giving extraregional resources Intertie access ahead of new regional resources.

6) Using a mechanistic application of the proposed Protected Area Program to determine which resources will detrimentally impact BPA's fish and wildlife investments, with no independent evaluation by BPA, and no exemption provision for resources which fully mitigate environmental impacts.

7) Neglecting to include provisions which will encourage and facilitate conservation transfers.

What follows is a detailed discussion of how the revised LTIAP can be modified to comply with BPA's statutory directives, and ensure that it operates in a more equitable manner. A completed marked-up draft of the LTIAP incorporating the proposed changes is attached to these comments.

3. Assured Delivery

A. BPA's Analysis of the Financial Impacts of Nonfederal Access Is Incomplete

The Intertie is a limited resource with a present capacity of 5200 megawatts, and during many periods of the year, firm and nonfirm energy available for export to the Southwest exceed the capacity of the Intertie. This means that increasing nonfederal access to the Intertie will commensurately reduce Intertie capacity available for federal use. Similarly, the market in the Southwest is also finite. To the extent that nonfederal utilities satisfy all or a portion of that market, it reduces the opportunities for BPA to sell surplus federal power in the Southwest.

BPA has performed a financial analysis to assess the impacts on BPA of permitting 800 megawatts of Intertie capacity to be used by nonfederal utilities. This analysis indicated that BPA would suffer between $240 to $380 million in lost revenues due to nonfederal transactions. Unfortunately, this analysis fails to completely assess the full impacts of these nonfederal transactions, and seriously under-estimates the lost revenues BPA will likely suffer.

The first conceptual flaw in BPA's analysis is the treatment of the Third A.C. The analysis assumes that the Third A.C. will be completed on time and with maximum capacity expansion. No analysis is performed to determine the revenue impact on BPA if the Third A.C. is not completed, or if it is delayed for a significant period. Either of these events would greatly magnify the revenue impacts on BPA of granting 800 megawatts of Intertie capacity to nonfederal utilities. However, since these potential developments are not analyzed by BPA, the precise magnitude of their impact on BPA is unknown.

The revised LTIAP also contemplates nonfederal transactions in addition to the 800 megawatts set aside for assured Delivery. At the present time, Tacoma City Light, Cowlitz PUD and Pacific Northwest Generating Company are contemplating export transactions which would reduce the Intertie capacity available for federal sales. However, BPA's analysis does not quantify the magnitude of these potential sales, nor does it assess the revenue losses BPA would suffer if all of these transactions were consummated.

Most seasonal exchange contracts contain cash-out provisions which permit Southwest utilities to pay cash to

Northwest utilities in lieu of returning energy. To the extent that Southwest utilities make cash payments in lieu of returning energy, many of the financial mitigation measures proposed by BPA will not operate, depriving BPA of the projected mitigation revenues. The BPA analysis does not assess how frequently cash-out provisions will operate, nor the extent to which they will deprive BPA of forecast mitigation revenues.

BPA's analysis credits the full export wheeling revenues from nonfederal transactions against the lost revenues from displaced federal export sales. This is in error for two reasons. First, the wheeling revenue credit should only account for the incremental difference between revenues from nonfirm transactions and firm transactions. And second, since under the rate-setting process wheeling revenues do not fully offset generation costs, only a fraction of the incremental wheeling revenues should be used to offset foregone revenues from displaced federal transactions. These corrections will substantially reduce the wheeling revenue credit.

Finally, the BPA analysis ignores the lost revenues attributable to sharing Intertie capacity with nonfederal utilities for nonfirm transactions after the expiration of the Exportable Agreement. Continuation of Formula Allocation deprives BPA of over 1000 megawatts of Intertie capacity when there is sufficient federal energy available to fill all available Intertie capacity. The BPA analysis does not assess the revenue impacts to BPA of continuing this policy.

As a result of these shortcomings, BPA's financial analysis of the revenue affects of permitting nonfederal utilities 800 megawatts Assured Delivery on the Intertie is partial and incomplete. Further, it seriously understates the likely revenue impacts to BPA of dedicating to nonfederal transactions 800 megawatts of Intertie capacity.

B. The Mitigation Provisions Must Hold BPA Harmless From Revenue Loss

The proposal in the revised LTIAP to make 800 megawatts of Intertie capacity available to nonfederal utilities is nearly double the amount contained in the initial draft LTIAP. Since this proposal will reduce BPA's revenues, and a number of "mitigation" steps are included in the policy. These include requiring energy returns at COB/NOB, suspending cash-out

provisions under Conditions 1 and 2, and reducing Formula Allocations by the amount of Assured Delivery granted a utility. Even with these operational mitigation proposals, BPA would be recouping only about $4 million of projected annual losses of $24 million. (BPA Analysis, Table 4, Alternative 1). Even this amount of mitigation is uncertain, since the amount of actual mitigation BPA will receive will depend on their success in the market.

The Ninth Circuit Court of Appeals has stated that BPA must exercise its right to priority access to the Intertie to fulfill its statutory duty to be self-financing. BPA cannot relinquish this statutory priority to generating utilities in a manner which causes BPA revenue loss. If BPA does permit nonfederal utilities to use the Intertie, it must be done in a manner which holds BPA harmless from financial loss attributable to these nonfederal transactions. This would include both current and reasonably foreseeable federal sales displaced by nonfederal transactions. Further, the mitigation must be certain, and cannot be left to the vagaries of a diminished export market.

Proposed Modification

To add certainty to the mitigation provisions, the LTIAP should impose on generating utilities a charge for each kilowatt of Intertie capacity to which they are given access. The charge should be based on the current and reasonably foreseeable losses BPA will likely suffer due to foregone surplus firm and nonfirm sales, and displaced sales in the region. This may require different charges for firm power sales and seasonally exchanges. The purpose of the charge would be to hold BPA harmless from the financial consequences of sharing access to the Intertie with generating utilities.

The level of this charge would be established in a Section 7(i) hearing, and would remain in place for a five year period. It would be reviewed and potentially revised every five years. Assured delivery contracts would impose the charge in affect when the contract was executed, and would be subject to subsequent change at five year intervals. This approach offers certainty and predictability to BPA, the generating utilities and BPA's other customers.

Implementing these proposals would require the following language changes to the LTIAP:

- Section 1(10) Mitigation - The definition of mitigation should be modified to clearly state that the purpose of mitigation is to hold BPA harmless from the financial consequences of sharing its priority to the Intertie with generating utilities.

- Section 4(d)(4) - Set out mitigation charge and its application.

C. The Level of the Mitigation Charge

During the public process, various generating utilities have suggested that the fixed mitigation charge be set to collect $4.0 million annually, as an alternative to the operational mitigation contained in the revised LTIAP. This proposal is legally deficient, and would not be sustained if legally challenged.

BPA has identified foreseeable annual revenue losses of $28 million if 800 megawatts of Intertie capacity is made available to nonfederal utilities. A mitigation charge which collects only 14 cents of every dollar of BPA's lost revenue does not satisfy BPA's statutory obligation in managing the Intertie. To assert that BPA will only forego $4 million a year in export revenues by giving up 800 megawatts of Intertie capacity is clearly fallacious.

If a fixed mitigation charge is to be substituted for BPA's priority to Intertie capacity, it must be calculated on the basis of the current and foreseeable sales BPA will forego in making Intertie capacity available to nonfederal utilities. Any other approach ignores BPA's statutory duties to the Treasury and its other customers.

It is argued that a fixed mitigation charge that comprehends all of BPA's revenue losses will be too onerous, and will make interregional transactions by nonfederal utilities impossible. In response, it should be noted that the utilities making this claim have not provided any documentation to substantiate this assertion. But more to the point, if these transactions do not provide any benefits to the parties when they must bear their own costs, they surely do not provide any benefits to the region as a whole. And there is a serious question whether transactions which cannot sustain the costs they generate should be entered into in the first place.

D. Individual Mitigation Should Be Permitted Under Limited Circumstances

It is likely that particular transactions may offer opportunities for mitigation which are mutually beneficial to BPA and the nonfederal utility receiving Assured Delivery. The LTIAP should permit such mitigation as an alternative to the fixed charge, but subject to strict limits and public review.

The most difficult aspect of individually negotiated mitigation is the question of whether the mitigation is adequate. In order to assure adequacy, the LTIAP must state that the negotiated mitigation will provide BPA with the same level and certainty of mitigation as BPA would receive from the fixed charge. In other words, the fixed mitigation charge must be the standard against which individually negotiated mitigation is measured. Further, the specific contract must be subject to review and comment by BPA's other customers prior to execution, in order to give BPA's other customers some confidence that the private negotiations have produced a result which protects their interests.

Proposed Modifications

The LTIAP should state that BPA can negotiate individual mitigation packages in Assured Delivery contracts. The mitigation provided by the fixed mitigation charge would be the standard against which such individual packages would be judged. Each contract would be subject to a public review and comment period prior to execution.

Implementing the proposals will require the following text changes to the LTIAP:

- Section 4(d)(4) - Permit negotiated contract mitigation equivalent to fixed charge.

- Section 4(d)(5) - Require BPA to provide status drafts of negotiated contracts upon request, and establish a thirty day comment period prior to contract execution.

E. The Indirect Costs of Assured Delivery Must Also Be Addressed

Granting nonfederal utilities Assured Delivery on the Intertie also has the potential of imposing indirect costs on BPA. These indirect costs are just as real to BPA as foregone federal sales, and they must be dealt with by the LTIAP. There are at least four ways that nonfederal transactions can indirectly impose costs on BPA. They include export commitments in excess of existing nonfederal resources, placing additional load on BPA due to resource sales, using BPA Intertie for firm transactions without fully utilizing privately held Intertie and unrestricted operation of cash-out provisions in nonfederal seasonal exchanges. Each of these items will be discussed in turn.

Making Intertie capacity available to nonfederal utilities for export transactions can result in nonfederal utilities assuming obligations which exceed their resource capabilities under certain circumstances. To the extent nonfederal utilities are forced to rely on the coordinated system to fulfill their export obligations, operational stress is placed on the federal system which could cause difficulties during low water periods. The LTIAP should ensure that Assured Delivery is not granted unless and until it can be amply demonstrated that the nonfederal utilities can fully support the proposed transaction. This is already partially accomplished by imposing megawatt limits on the size of transactions in Exhibit B.

The second area where indirect costs can be imposed on BPA is load placement. Granting a nonfederal utility Intertie access presents the possibility of the utility entering into a long-term sale which commits resources outside the region. The nonfederal utility could then place its load growth on BPA, and cause BPA's other customers to incur resource acquisition costs to support the nonfederal export sale. The revised LTIAP attempts to deal with potential cost by requiring a service waiver commensurate to the amount of Assured Delivery granted.

The third way that nonfederal transactions can impose indirect costs on BPA is through the use of nonfederally owned Intertie capacity. Currently, PGE and PP&L own a portion of existing Intertie capacity. In addition, BPA is studying whether to permit nonfederal ownership of up to 1600 megawatts of additional capacity made available by the Third A.C. Private ownership of Intertie capacity gives nonfederal utilities the opportunity to conduct firm transactions over the federal Intertie, while using their own Intertie capacity to transact

nonfirm sales. This would allow nonfederal utilities to "double dip" on Intertie capacity, to the detriment of BPA and its other customers. The LTIAP must contain language expressly requiring that nonfederal utilities to use their own Intertie capacity fully before obtaining Assured Delivery over federal Intertie capacity.

Finally, nonfederal seasonal exchanges can operate to deprive BPA of expected benefits through the operation of cash-out provisions. It is argued that seasonal exchanges benefit BPA and the region through increased wheeling revenues, additional return energy nonfirm markets, increased counter-scheduling capability, and resource construction deferral due to winter energy returns. However, these alleged benefits are dependent, in whole or in part, on energy being returned from the Southwest to the Northwest in the winter. To the extent that these nonfederal transactions permit payment in lieu of winter energy returns, these supposed benefits are lost to the region. Unrestricted use of cash-out provisions in nonfederal seasonal exchanges could substantially reduce incremental wheeling revenues, winter return energy sales revenues, counter-scheduling and deferral of regional resources.

Proposed Modifications

A number of the potential indirect costs attributable to granting Assured Delivery to nonfederal utilities are already partially dealt with by the LTIAP. However, additional modifications would strengthen these provisions.

Operational difficulties caused by nonfederal transactions can be avoided by retaining the megawatt limits on nonfederal firm power and seasonal exchange transactions. Further, language should be added to require that nonfederal utilities proposing seasonal exchanges demonstrate to BPA's satisfaction the transaction will not pose any operational difficulties prior to receiving an Assured Delivery contract.

Section 4(b) of the revised LTIAP requires a waiver of BPA's service obligation equal to the amount of Assured Delivery granted to the utility. Although this provision should discourage load shifting to BPA to support nonfederal exports, it should be strengthened and clarified.

The revised LTIAP requires privately held Intertie capacity be used before Assured Delivery is granted. This language must be retained.

Finally, cash-out provisions should not be allowed to operate in an unrestricted manner. The LTIAP should retain the

language stating that cash out provisions cannot be utilized when BPA is in Conditions 1 or 2.

Implimenting these modifications will require modifications to the following LTIAP sections:

Section 3(a) - Require demonstration that proposed transaction will not impose operational difficulties or coordinated system.

Section 4(b) - Strengthen service obligation waiver provision.

4. BPA Must Exercise Its Priority to Intertie Capacity for Marketing Nonfirm Energy

BPA has made two proposals for allocating Intertie capacity for nonfirm sales when the supply of energy in the Northwest exceeds either the Intertie capacity available or the market in the Southwest.

In its first proposal for Formula Allocation, BPA proposed to continue sharing Intertie capacity with nonfederal utilities by allocating on the basis of installed hydro capacity, net of Assured Delivery granted the utility. BPA also suggested that it would allocate Intertie capacity based on the size of the market rather than the capacity of the Intertie, and would additionally prohibit the operation of cash-out provisions under certain conditions.

During the LTIAP workshops, BPA proposed a second approach for granting Intertie capacity under Formula Allocation. The idea was to share available Intertie capacity based upon utility declarations of surplus energy, granting access to all declaring utilities prorated to total declarations. BPA would allow the market to set the price, and would allocate the full amount of Intertie capacity not being used for firm transactions. Should BPA be unable to sell its full pro-rata allocation under Condition 1, BPA would take a proportionately larger allocation in subsequent days to maintain its overall market share.

Of the two proposals offered by BPA, it appears that the most recent offering would be the most workable. It eliminates the notion of allocating to the market, which seemed to raise serious problems. Also, it eliminates the hydro cap, which placed an artificial constraint on economy energy transactions. However, this proposal makes no provision for the possibility that BPA may find itself relying on its market clearing rate a good deal of the time. Under such circumstances, BPA would maintain its market share but would suffer significant revenue erosion. To operate effectively, this proposal must include a provision which permits BPA to increase its allocation on subsequent days if it has suffered revenue loss because it was forced to make an inordinate portion of its sales at the market clearing rate.

Unfortunately, even with this modification, neither of these proposals satisfies BPA's statutory duty with regard to managing Intertie access. As succinctly stated by the Ninth

Circuit Court of Appeals in California Energy Commission v. Jura, (Slip Opinion of November 6, 1987, p. 4);

> In allocating Intertie capacity, BPA is statutorily required to give itself priority.

Rather than fulfilling its statutory duty to exercise priority to Intertie capacity to consummate federal transactions, the LTIAP proposed a pro-rata sharing of the Intertie between federal and nonfederal transactions. While there may have been some justification for this approach while the Exportable Agreement was in affect, that contractual obligation expires December 31, 1988, and provides no justification for continuing this approach into the future. BPA has a clearly enunciated statutory duty to use all available Intertie capacity to sell federal energy before making any Intertie capacity available to nonfederal utilities. BPA's Formula Allocation proposals do not comport with this statutory directive, and will deprive BPA of over 1000 megawatts of Intertie capacity when BPA has nonfirm energy which could be sold to the Southwest. Although BPA has declined to analyze the revenues it will forego by continuing the pro-rata sharing approach, it is conservatively estimated that this policy will deprive BPA of over $50 million in annual revenues.

Proposed Modifications

BPA must establish a Formula Allocation which ensures that BPA has sufficient Intertie capacity available to it to transmit the federal nonfirm energy which is capable of being marketed. Only Intertie capacity which is in excess of federal requirements should be made available to generating utilities for non-federal transactions.

To achieve this goal, while still providing some surety to generating utilities regarding the amount of Intertie capacity which will be available to them, it is suggested that BPA reserve fixed percentage (85%) the available Intertie capacity under both Conditions 1 and 2. The remaining amount of Intertie capacity should then be made to generating utilities.

To incorporate this concepts, the following sections of the LTIAP must be modified as follows:

> Section 5(c)(1)(B) - Modify to state that under Condition 1, BPA will reserve 85% of the available Intertie for federal transactions, with the remainder available to nonfederal utility nonfirm transactions.

Section 5(c)(2) - State that BPA will reserve the 85% of the available Intertie capacity for federal nonfirm sales under Condition 2, and leave the remaining Intertie capacity available for nonfederal transactions.

5. The LTIAP Should Not Discriminate Against Non-Scheduling Utilities

BPA's responsibility in allocating Intertie capacity among competing generating utilities was succinctly stated by the Ninth Circuit in Department of Water & Power v. BPA:

> The Administrator shall make available to all utilities on a fair and nondiscriminatory basis, any capacity in the [Intertie] which he determines to be in excess of the capacity required to transmit electric power generated or acquired by the United States.

The revised LTIAP violates this statutory directive in two ways. First, it appears to exclude from Intertie access existing resources operated by utilities which do not operate their own load control area. And second, it makes no provision for granting Intertie access to resources developed after the policy takes effect. Each of these areas is discussed in detail below.

A. Intertie Access for Existing Regional Generation

The revised LTIAP defines Scheduling Utility as one that operates a generation control area. Section 3(b) of the policy restricts all Intertie access, including Assured Delivery and Formula Allocation, to Scheduling Utilities. Although it is not perfectly clear, the interaction of these two provisions could deprive utilities which currently have generation, but do not operate their own load control areas, of any access to the Intertie. This group would include Eugene Water and Electric Board, Cowlitz PUD, Snohomish PUD and PNGC. It would also exclude from Intertie access utilities which are currently metered requirements customers with generation that are subsequently designated computed requirements customers. This could include Grays Harbor and Clark PUD's.

Depriving these utilities of any Intertie access merely because they do not operate a control area makes no operational sense, and is inconsistent with BPA's duty to offer Intertie access on a fair and nondiscriminatory basis.

Proposed Modifications

All regional utilities which currently have generation and are designated as computed requirements customers should be

treated in the same fashion when BPA allocates Assured Delivery and Formula Allocation access. This will put all regional utilities on an equal footing with regard to Intertie access.

To implement this approach, the following sections of the revised LTIAP should be modified:

- New Section - "Northwest Utility" - Add definition of Northwest Utility to encompass both Scheduling and Nonscheduling utilities.

- Section 1(11) Nonscheduling Utilities - Revise to distinguish from scheduling utility.

- Section 17 Scheduling Utility - Base definition on whether utility is computed requirements customer.

- Section 3(b) - Delete entire section, since it is redundant to Section 3(a), and unnecessary after change in definition.

B. Intertie Access for New Regional Resources

The revised LTIAP precludes from Intertie access all regional resources which begin commercial operation after the policy becomes effective. This includes both Assured Delivery and Formula Allocation access. The only exceptions to this total prohibition is for new resources built by current generating utilities to support export transactions, and new resources used in a joint venture with BPA. The result of this proposed policy is to establish a monopoly over the portion of the Intertie dedicated to nonfederal transactions in favor of existing generating utilities. This approach violates BPA's statutory duty to make Intertie capacity in excess of BPA's needs available on a fair and nondiscriminatory basis.

The Ninth Circuit has recognized BPA's statutory duty to grant itself preference to Intertie capacity. However, BPA is prohibited from extending this preference to other generating utilities. As the Ninth Circuit Court stated:

> Congress specifically articulated its intent that BPA operate its transmission lines in part "to prevent monopolization thereof by limited groups."

The proposed approach also violates BPA's obligation to make Intertie capacity available to regional resources before granting access to extraregional resources. As stated by the Ninth Circuit, BPA is

> . . . required to allocate use of federally owned transmission facilities in a manner which accords preference first to transmission of federal power and then to transmission of other Northwest-generated power. Once such preferences are accommodated, the agency is prohibited from denying access . . . to other extraregional utilities . . .

The revised LTIAP reverses these priorities by granting extraregional resources both Assured Delivery and Formula Allocation Access before new regional resources.

Finally, this prohibition of new regional resources from Intertie access ignores the assurance given in the Near Term Policy that there would not be a total exclusion of new regional resources in the LTIAP. Again, citing the Ninth Circuit Court in upholding the temporary exclusion of new resources in the Near Term Policy:

> The Near Term Policy expressly indicates that the Long-Term Policy will eliminate the total exclusion of new generating sources in favor of a less restrictive exclusion.

The revised LTIAP does not fulfill this promise.

Proposed Modifications

In order to avoid establishing a monopoly over nonfederal Intertie access by existing generating utilities, provision must be made for granting Intertie access to new regional resources of computed requirements customers for both Assured Delivery and Formula Allocation. This can be achieved in an orderly and reasonable manner.

For Assured Delivery, new regional resources should be granted Intertie access to the extent that the 800 megawatts set aside for nonfederal transactions has not been fully subscribed by current generating utilities, or if BPA determines that additional Intertie capacity in excess of BPA's needs is available due to the completion of the Third AC or some other reason. After the completion of the Third AC, or if BPA subsequently decides to increase the amount of Intertie capacity available for nonfederal firm transactions, all regional generating resources should be

given an equal opportunity to access this additional capacity, so long as the resources are operating at the time the capacity is made available.

With regard to nonfirm transactions, there should be no distinction drawn between existing and new regional resources. After BPA has reserved for itself the amount of Intertie needed for its transactions, the remaining Intertie capacity should be apportioned to all regional generating resources regardless of when they became operational.

These suggestions can be implemented with the following language changes:

- New Section - "New Regional Resource" - add a definition of New Regional Resource as one starting operation after policy takes effect.

- Section 1(15) - " Qualified Regional Resource" - Modify definition to allow New Regional Resources Assured Delivery out of 800 MW before Third AC completed, and treating them same as existing regional generation for determining access to any additional Intertie capacity made available for non-federal firm transactions.

- Section 3(b) - Delete this provision to allow New Regional Resources Intertie access for nonfirm transactions.

6. BPA Should Take Appropriate Steps To Protect Its Fish and Wildlife Investments

BPA has included in the revised LTIAP provisions designed to discourage resource development which would adversely impact BPA's fish and wildlife investments. It is appropriate for BPA to take steps to protect its fish and wildlife investments. The WPAG supports the principal that the LTIAP should not encourage or facilitate the development of resources which degrade BPA's fish and wildlife investments. Development of such environmentally unsound resources would only result in additional fish and wildlife costs being imposed on BPA's customers.

While the principal of protecting BPA's fish and wildlife investment through the LTIAP is sound, the methods proposed by BPA are faulty. BPA proposes to accept and uncritically apply the draft Protected Area Program recently proposed by the Regional Council staff. Any resource built in a protected area would be subject to automatic penalty, even if the project actually enhanced fish and wildlife. This mechanistic approach is inadequate.

BPA has an independent responsibility to determine where it has made fish and wildlife investments, and whether proposed resource development located in the Columbia Basin will adversely impact these investments. In making these determinations, BPA should rely on information gathered by the Regional Council and other data available to BPA. Further, to the extent that it can be demonstrated that any potential adverse impact to BPA's fish and wildlife investments from a proposed resource located in the Columbia River Basin has been fully mitigated, no penalty should be imposed. This approach would be far superior to the rigid and premature application of the draft Protected Areas Program which the Regional Council has not yet approved.

Proposed Modifications

The revised LTIAP should be modified to require that BPA make an independent determination of what new resources degrade its fish and wildlife investments. Reliance on Regional Council data for these determinations should be permitted, but should not constitute the sole source of information. Further, BPA should be permitted to waive any penalty under the LTIAP if the resource sponsor can demonstrate that any adverse impact has been fully mitigated.

To implement these provisions the following modifications are needed:

Section 7(a) - Add language limiting application of penalty to resources insede the Columbia River Basin, and permitting exemption it adverse impacts are mitigated.

Section 7(b) - Make BPA responsible for determining if adverse impacts have occurred.

7. The LTIAP Should Facilitate Conservation Transfers

The revised LTIAP appears to have lapsed into pre-Regional Power Act usage by defining resources purely in terms of generating facilities, and completely ignoring conservation resources. As a result of this definition, the revised LTIAP does not permit interregional conservation transfers.

As currently drafted, the LTIAP implements a policy which is in conflict with the resource priorities established in Section 4(e) of the Regional Power Act. It does so by permitting new generating resource development, including baseload thermal, to support export sales, while barring the use of the Intertie to facilitate conservation transfers. Not only is this approach contrary to the statutory resource priorities BPA must follow, but it constitutes bad policy as well. Conservation transfers can be used by both regions to extend the duration of mutually beneficial transactions without additional resource construction. The LTIAP should encourage and facilitate such transactions as an alternative to generation construction.

Proposed Modifications

The revised LTIAP should use the definition of resource contained in the Regional Power Act. Additionally, conservation transfers should be expressly permitted under Section 4(c) of the LTIAP.

To implement conservation transfers, the following portions of the revised LTIAP should be revised:

Section 1(16) - Change definition of resource to include conservation.

Section 4(c) - Include conservation transfers in this section.

Attachment
LTIAP-3-123

REVISED DRAFT LONG-TERM INTERTIE ACCESS POLICY

Section 1. Definitions

1. "Administrator" means the Administrator of Bonneville Power Administration (BPA) and is used interchangeably with BPA.

2. "Administrator's Power Marketing Program" refers to all marketing actions taken and policies developed to fulfill BPA's statutory obligations. These actions and policies are based on exercises of broad authority to act, consistent with sound business principles, to recover revenue adequate to amortize Federal investments in the Federal Columbia River power and transmission systems, while encouraging diversified use of electric power at the lowest practical rates. In the Northwest, the Administrator's Power Marketing Program includes BPA's power supply obligations and programs to market surplus power in a manner that assures an adequate, reliable, economical, efficient, and environmentally acceptable power supply, while preserving regional and public preference to Federal electric power. In the Southwest, the Administrator's Power Marketing Program includes the Administrator's programs to market surplus Federal power at equitable prices and to assist in marketing the Northwest's non-Federal power surplus.

3. ~~"Assured Delivery" means firm Intertie transmission service provided by BPA under a transmission contract to wheel power covered by a contract between a Scheduling Utility and a Southwest utility.~~ Assured Delivery contracts may not exceed 20 years' duration. The service is interruptible only in the event of an uncontrollable force for a determination made pursuant to sections 7 or 8 of this policy. Assured Delivery service will be reduced only by the amount of transmission capacity to the Southwest later acquired by a Scheduling Utility through ownership or contract.

3. "Assured Delivery" means firm Intertie service provided by BPA under a transmission contract to wheel power sold or exchanged by a Northwest or Extraregional utility to a Southwest utility pursuant to this policy. (Return to text).

4. "BPA Resources" means Federal Columbia River Power System hydroelectric projects; resources acquired by BPA under long-term contracts, including resources acquired pursuant to sections 5(c) and 6 of the Northwest Power Act; and resources acquired pursuant to section 11(b)(6)(1) of the Federal Columbia

River Transmission System Act.

5. "Extraregional Utilities" are generating utilities, or divisions thereof, that do not provide retail electric service and own or operate significant amounts of generating capacity in the Northwest.

6. "FD Supported Sale" means that portion of a Scheduling Utility's firm sale equal, in amount and shape, to the utility's purchase of BPA Firm Displacement power.

7. "Formula Allocation" means the shares of Intertie Capacity made available to Scheduling Utilities and, under certain conditions to Extraregional Utilities, for short-term (less than one year) sales of energy.

8. "Intertie" means the two 500-kilovolt (kV) alternating current (AC) transmission lines and one 1,000-kV direct current (DC) line, which extend from Oregon into California or Nevada, and any additions thereto identified by BPA as Pacific Northwest-Pacific Southwest Intertie facilities.

9. "Intertie Capacity" means the North to South transmission capacity of the Intertie controlled by BPA through ownership or contract; increased by power scheduled South to North, decreased by loop flow, outages, and other factors that reduce transmission capacity; and further decreased by Pacific Power & Light Company's Nos. DE-MS79-86BP92299 and DE-MS79-79BP90091).

~~10. "Mitigation" refers to the conditions, other than rate schedule provisions, imposed by BPA on a Scheduling Utility in return for an Assured Delivery contract. Mitigation helps offset operational and economic problems, attributable to a Scheduling Utility's power transaction, that inhibit BPA's ability to meet its existing firm load obligations or to generate revenues.~~ The Mitigation measures specified in this policy must be included in all Assured Delivery contracts, unless substitute measures are negotiated with BPA on a case by case basis.

10. "Mitigation" refers to conditions including financial and operational, which BPA will impose on Northwest and Extraregional utilities in return for an Assured Delivery contract. The purpose of mitigation is to hold BPA harmless from the financial and operational impacts on BPA which are attributable to permitting non-Federal utilities to use the federal portion of the Intertie under Assured Delivery contract provided pursuant to Sections 4(c), 4(d) and 6(a) of this policy. (Return to text).

11. "New Regional Resource" means a resource located inside the Northwest that commenced commercial operation after the effective date of this policy.

12. "Northwest Utility" means a Scheduling or Nonscheduling Utility.

~~11.--"Nonscheduling Utility" means a non-Federal Northwest utility that owns a generating resource, but does not operate a generation control access within the Pacific Northwest.~~ A Nonscheduling Utility requesting Intertie access for its resource must do so through the Scheduling Utility (or BPA) in whose control area the resource is located.

13. ~~"11.~~ Nonscheduling Utility" means a non-Federal utility which is not a Scheduling Utility and which is located in the Northwest. (Return to text).

14. ~~12.~~ "Pacific Northwest" (or "Northwest") is defined in the Northwest Power Action 16 U.S.C. §839e, as the states of Oregon, Washington, and Idaho; the portion of Montana west of the Continental Divide; portions of Nevada, Utah, and Wyoming within the Columbia River drainage basin; and any contiguous service territories of rural electric cooperatives serving inside and outside the Pacific Northwest, not more than 75 air miles from the areas referred to above, that were served by BPA as of December 1, 1980.

15. ~~13.~~ "Protected Area" means a stream reach within the Columbia River drainage basin specially protected from hydroelectric development because of the presence of anadromous or high value resident fish, or wildlife. Protected areas may also include stream reaches which could support anadromous fish if investments were made in habitat, hatcheries, passage, or other projects. ~~This policy contemplates that BPA will implement, after review and possible modification, a comprehensive protected area program adopted by the Pacific Northwest Electric Power and Conservation Planning Council.~~

16. ~~14.~~ "Qualified Extraregional Resources" means:

(a) A generating unit located outside the Northwest that was in commercial operation on the effective date of this policy. However, the term excludes the portions of units covered as Qualified Northwest Resources.

(b) After the Administrator has determined that the capacity of the Intertie is rated at approximately 7,900 MW, all resources located outside of the Northwest, other than the portions of extraregional resources covered as Qualified Northwest Resources.

17. ~~15.~~ "Qualified Northwest Resources" exclude BPA Resources, but include:

~~(a)--Generating resources located inside the Northwest that were in commercial operation on the effective date of this policy. Regarding generating resources owned or controlled by Nonscheduling Utilities, it must be demonstrated that a relationship had been established by that date with a Scheduling Utility or BPA to serve Northwest loads.~~

(a) Generating resources located inside the Northwest that are owned or controlled by Scheduling Utilities, and were in commercial operation as of the effective date of this policy.

(b) Generating resources located inside the Northwest which are owned or controlled by Nonscheduling utilities that were in commercial operation as of the effective date of this policy, and for which an agreement was in place on or before the effective date of this policy with BPA or a Scheduling Utility which provides integration service for such resource.

(c) ~~(b)~~ Scheduling Utility extraregional generating resources dedicated to Northwest loads on the effective date of this policy. This term includes pro rata portions of Montana Power Company's and Pacific Power and Light Company's shares of the Colstrip No. 4 generating station, based on the ratio of their respective regional loads to their respective total loads; and Idaho Power Company's share of Valmy No. 2.

~~(c)--New regional resources of Scheduling Utilities, except for hydroelectric resources located in Protected Areas, needed to support power contracts receiving Assured Delivery service under this policy.~~

(d) New Regional Resources of Northwest Utilities which are needed to support contracts receiving Assured Delivery under this policy, and which otherwise qualify for Intertie access under this policy.

(e) Prior to the date the Administrator determines that the capacity of the Intertie is approximately 7900 MW, New Regional Resources of Northwest Utilities which BPA has granted

Assured Delivery based upon a determination by BPA that sufficient Intertie capacity from the 800 MW provided for non-Federal transactions is available, and the resource otherwise qualifies for Intertie access under this policy.

(f) After the date the Administrator has determined that the capacity of the Intertie is approximately 7900 MW, or upon determination that additional Intertie capacity should be made available for nonfederal transactions, any generating resource owned or controlled by a Northwest Utility located within the region which is in commercial operation, and which otherwise qualifies for Intertie access under this policy.

16. "Resource" means an identified electric generating unit or stack of particular electric generating units identified to supply power or capacity for sale over the Intertie, or actual or planned load reduction from direct application of a renewable energy resource or from a conservation measure.

~~17. "Scheduling Utility" means the Northwest portion of a non-Federal utility that operates a generation control area within the Northwest.~~

17. 17. "Scheduling Utility" means a utility, other than BPA, that operates a generation control area within the Northwest, and any utility within BPA's generation control area that schedules with BPA and is designated as a Computed Requirements customer pursuant to BPA's Power Sales Contract.

18. "Seasonal Exchange" means a transaction that takes advantage of seasonal diversity between Northwest and Southwest loads through transfers of firm power, at a prespecified delivery rate, from North to South during the Southwest's summer load season and from South to North during the Northwest's winter load season. Seasonal Exchanges may involve payments of additional consideration to reflect the relative seasonal values of power throughout the western United States. Seasonal Exchange schedules of Northwest utilities will be referred to as "deliveries," and schedules of Southwest utilities will be referenced as "returns." A ~~Scheduling~~ Northwest Utility must be able to support its summertime firm power deliveries with generating resources that are surplus to its Northwest requirements. The sum of a ~~Scheduling~~ Northwest Utility's energy resources for each month in which deliveries are made (with special concern for August) must exceed its corresponding Northwest loads by an amount sufficient to support the Seasonal Exchange.

19. "Section 9(i)(3) resource" means a Scheduling Utility resource that BPA has granted priority in receiving BPA transmission, storage and load factoring services.

Section 2. Intertie Capacity Reserved For BPA

The Administrator reserves for BPA's use Intertie Capacity sufficient to:

(a) Deliver the full amount of BPA's surplus firm power,

(b) Perform obligations under existing BPA transmission contracts listed in Exhibit C, to the extent such obligations differ from the conditions specified in this policy, and

(c) Provide Assured Delivery service for transactions not subject to limits under Exhibit B to this policy.

Section 3. Conditions For Intertie Access

(a) All Intertie access will be granted pursuant to the conditions and procedures of this policy, unless otherwise specified in the three existing BPA transmission contracts listed in Exhibit C. Utilities seeking Assured Delivery must demonstrate that the proposed transaction will not substantially interfere with the operation of the Federal system.

~~(b) BPA will provide Intertie access only for BPA Resources and the Qualified Northwest Resources of Scheduling Utilities, except to the extent that Qualified Extraregional Resources are permitted access under this policy.~~

(b) ~~(c)~~ BPA will provide Assured Delivery and allocate remaining Intertie Capacity when providing such access will not substantially interfere with operating limitations of the Federal system. Examples of these limitations, which reflect BPA's obligation to operate in an economical and reliable manner consistent with prudent utility practices, include:

(1) The BPA reliability criteria and standards,

(2) Western Systems Coordinating Council minimum operating reliability criteria,

(3) North American Electric Reliability Council Operating Committee minimum criteria for operating reliability, and

(4) Coordination agreements among BPA, scheduling utilities and other Federal agencies regarding resource and river operations.

(d) Any utility that has contractual or ownership rights to transmission capacity to Southwest utilities must be fully utilizing such capacity prior to receiving any access to BPA Intertie Capacity.

Section 4. Assured Delivery For Intertie Access

Subject to the limitations and other conditions in this section and in other sections of this policy, BPA has determined that it can provide Assured Delivery to ~~Scheduling~~ Northwest Utilities without causing substantial interference with the Administrator's Power Marketing Program.

(a) Access for Utilities Owning Or Controlling Southwest Interconnections. Assured Delivery is intended primarily for ~~Scheduling~~ Northwest Utilities which lack interconnections with the Southwest. A utility with transmission access to Southwest utilities, through contract or ownership, must utilize all such capacity on a firm basis before receiving any Assured Delivery. A utility is eligible for Assured Delivery only to the extent that the sum of its Exhibit B amounts exceeds its own transmission capacity to the Southwest.

(b) Waiver Of BPA Service Obligation. Assured Delivery contracts must contain a waiver of BPA's obligation to serve firm load under the ~~Scheduling~~ Northwest Utility's power sales contract, ~~up~~ equal to the amount of power for which firm Intertie access is provided.

(c) Transactions Not Subject To Exhibit B Limits Under This Policy. Transactions described in this subsection (c) shall be provided Intertie access on the portion of the Intertie described in Section 2 of this policy.

(1) Joint Ventures. Joint venues between BPA and Northwest utilities, such as firm displacement contracts, which allow BPA to increase its sales of surplus power qualify for Assured Delivery.

(2) Sales In Lieu Of Exchanges. BPA may offer to satisfy ~~Scheduling~~ Northwest Utility demands for Seasonal Exchanges by selling them incremental amounts of surplus firm power during winter months. Upon committing to purchase such incremental firm power at negotiated prices that reflect BPA's lost opportunities for summer sales, a ~~Scheduling~~ Northwest Utility will qualify for Assured Delivery (with mitigation) to wheel an equal amount of firm capacity and energy over the Intertie during summer months.

(3) Sales By Nonscheduling Utilities. A sale or exchange of power from a Qualified Northwest Resource of a Nonscheduling Utility will be granted Assured Delivery upon terms and conditions mutually agreed upon by BPA and the Nonscheduling Utility.

(4) Conditions. A ~~Scheduling~~ Northwest Utility may request at any time the Assured Delivery of transactions identified in sections 4(c)(1), 4(c)(2), and 4(c)(3). Relevant contracts must be presented for review when Assured Delivery is requested. BPA will satisfy a request within 60 days after a ~~Scheduling~~ Northwest Utility has demonstrated satisfaction of the requirements of this policy.

(4) Conservation transfers which are reviewed and approved by BPA prior to implementation.

(d) Transactions Subject To Exhibit B Limits Under This Policy.

~~(1) Maximum Amounts of Assured Delivery. BPA will provide 800 MW of Assured Delivery for transactions, limited by Exhibit B amounts, that are identified in this policy. BPA will determine the amount of any additional Assured Delivery increment after conclusion of the Third AC participation process. Moreover, the 800 MW amount may be subject to some reduction if the be termination expansion project is not completed on schedule.~~

(1) Maximum Amounts of Assured Delivery. BPA will provide 800 MW of Assured Delivery for non-Federal transactions, limited by Exhibit B amounts, that are identified in this policy. This 800 MW amount may be subject to change if the DC Terminal Expansion or the Third A.C. is not completed on schedule. Upon completion of the Third AC Participation Process, BPA will determine what amount of additional Intertie capacity, if any, should be made available for non-Federal transactions when the Third AC becomes operational.

(2) Firm Power Sales

(A) Existing Transmission Contracts. BPA will provide Assured Delivery for the remaining term of the firm power sale contract identified in Exhibit C to this policy.

(B) Exhibit B Amounts.

(i) Current maximum. Each Scheduling Utility's maximum Assured Delivery amount for firm sales equals its average firm energy surplus, shown in Exhibit B to this policy. Except

for Montana Power Company (MPC), Exhibit B represents projected Scheduling Utility surpluses for the 1988-89 operating year. In satisfaction of all obligations to MPC under Northwest Power Act section 9(1)(3), MPC's Exhibit B amount is set at 105 MW to facilitate long-term sales of firm power from its share of the Colstrip No. 4 coal-fired generating station.

(ii) Future changes. BPA may, at its discretion, revise Exhibit B to reflect changes in the firm power surpluses of individual utilities; however, the 361 MW Exhibit B average firm surplus total is not subject to increase. Any unutilized Assured Delivery amount is revoked if, upon revision, a utility's individual Exhibit B amount has declined or if a utility has sold firm power to another utility seeking to increase its Exhibit B average firm surplus amount. A Scheduling Utility may increase its individual Exhibit B amount by purchasing surplus firm power from BPA or any Scheduling Utility with an Exhibit B amount.

(iii) Nature of Transactions. BPA will not provide Assured Delivery for transactions which a ~~Scheduling~~ Northwest Utility cannot demonstrate to be other than an advance arrangement to sell nonfirm energy. Nonfirm energy transactions may receive Intertie access only under section 5 of this policy.

(C) Shaping. Firm power sales eligible for Assured Delivery may be shaped within the following ranges. During the months of September through December, a ~~Scheduling~~ Northwest Utility may delivery firm energy at a rate up to 1.8 times its Exhibit B average firm surplus amount. During the months of January through August, a ~~Scheduling~~ Northwest Utility may delivery firm energy at a rate no greater than 1.0 times its Exhibit B amount. However, total delivered energy may not exceed the Exhibit B annual firm energy maximum.

(3) Seasonal Exchanges

(A) Existing Contracts. BPA will provide Assured Delivery for the remaining term of the Seasonal Exchange contracts identified in Exhibit C to this policy.

(B) Exhibit B Amounts. Subject to the Individual utility Seasonal Exchange maximums in Exhibit B, BPA will provide Assured Delivery to facilitate Seasonal Exchanges of Qualified Northwest Resources. The current Exhibit B (representing Intertie Capacity Available for Assured Delivery) is subject to revision at the discretion of BPA.

(4) Mitigation

BPA has determined that the financial and operational impacts on BPA attributable to non-Federal uses of the federal portion of the Intertie amount of $ /KW. Upon completion of the Section 7(i) process and FERC approval, a mitigation charge of $ /KW will be made a part of the applicable BPA transmission rate schedule for Intertie transactions, and shall be subject to review and possible revision in subsequent BPA Section 7(i) Hearings once every five (5) years. Assured Delivery contracts shall provide that non-Federal utilities granted access to the federal portion of the Intertie shall be obligated to pay to BPA the mitigation charge for each kilowatt of Intertie capacity granted, as that charge may be revised. As an alternative to this charge, the utility requesting Assured Delivery may elect to negotiate with BPA for inclusion in the Assured Delivery contract other mitigation arrangements which will provide BPA mitigation equal to the mitigation charge. Some alternative methods of mitigation arrangements available are listed in paragraph A, B and C below.

(A) Firm Sales And Seasonal Exchange Deliveries. During any hour in which BPA has invoked Condition 1 allocation procedures to preschedule energy deliveries, each utility's Assured Delivery amount shall be deducted from its formula allocation to determine its share of energy schedules on the Intertie. If the remainder is negative for a given utility, then that utility must purchase sufficient energy from BPA, at BPA's then-applicable rate, to make up the difference.

(B) Seasonal Exchange Returns

(i) Returns. Exchange contracts must specify that all return energy be scheduled to either the AC Intertie point of interconnection at the California-Oregon border ("COB") or the DC Intertie point of interconnection at the Nevada-Oregon border ("NOB"). Exchange contracts must also specify prescheduled determinations of hourly energy returns.

(ii) Cash out. During any hour in which BPA has invoked Condition 1 or Condition 2 allocation procedures to preschedule energy deliveries, a utility may not utilize the cash out provisions of a Seasonal Exchange contract. The rate of a cash out during Condition 3 shall not exceed than the rate at which the exchange return could have been scheduled.

(5) Satisfying Requests For Assured Delivery. To allow sufficient time for contract negotiation, initial requests under this policy will be accepted until February 1, 1989.

Thereafter, BPA will negotiate and execute Assured Delivery contracts. If Intertie Capacity remains available for Assured Delivery of transactions limited by Exhibit B amounts, subsequent requests must be received no later than 120 days before commencement of the next BPA operating year. All relevant power contracts must be presented for review no later than the date on which a request for Assured Delivery is made. BPA will not entertain Assured Delivery requests for firm power sales in excess of a utility's Exhibit B maximum.

Draft Contracts for Assured Delivery being negotiated by BPA and the utility will be made available to BPA customers upon request. Upon completion of negotiation of an Assured Delivery contract, and before execution by either party, BPA will release the proposed contract for public review and comment, with the comment period being not less than thirty (30) days.

Section 5. Formula Allocation

(a) Limits on Intertie Capacity Available For Formula Allocation. Generally, BPA will determine Intertie Capacity available for Formula Allocations after first taking into account the amount of Intertie Capacity necessary to satisfy requirements of the Administrator's Power Marketing Program, existing transmission contracts listed in Exhibit C, and Assured Delivery contracts executed by BPA pursuant to this policy. However, during Condition 1, BPA will not consider the Assured Delivery contracts subject to mitigation requirements in determining available Intertie capacity. BPA may reduce any allocation, if additional Intertie Capacity is required to minimize revenue losses associated with actions taken to protect fish in the Columbia River drainage basin.

(b) Northwest Scheduling Utility Requirements. BPA will make utilities aware of scheduling requirements before the policy is implemented.

(c) Allocation Methods.

(1) Condition 1

(A) Until December 31, 1988. Intertie Capacity will be allocated pursuant to the Exportable Agreement (BPA Contract No. 14-03-73155), when applicable.

(B) After December 31, 1988. Condition 1 will be effect when the Federal system is in spill or in likelihood of spill, as determined by BPA. Available Intertie capacity will be

allocated pursuant to the following procedure:

(i) Each hour, the maximum Condition 1 allocations for BPA and each Scheduling Utility will be based on the ratio of their respective hydroelectric generating capacities to the Northwest's total hydroelectric generating capacity, multiplied by the available Intertie capacity (the "Hydro Cap"). To the extent that the declarations of some Scheduling Utilities are less than their respective Hydro Caps, BPA will allocate the remainder, pro rata, to itself and to other Scheduling Utilities whose declarations are greater than, or equal to, their respective Hydro Caps. Examples of allocations under Condition 1 are shown in Exhibit A.

(ii) During Condition 1, whenever the Southwest market at BPA's applicable rate is less than the available Intertie capacity, BPA will allocate no more capacity than that market amount.

(iii) In calculating each Scheduling Utility's Hydro Cap, BPA will reduce the hydroelectric generating capacities of individual utilities by any Protected AREa decrements determined pursuant to section 7.

(2) Condition 2

When Condition 1 is not in effect, but BPA and Scheduling Utilities declare amounts of energy that exceed available Intertie capacity, Formula Allocations for BPA and each Scheduling Utility will approximate, by hour, the ratio of each declaration to the sum of all declarations, multiplied by the available Intertie capacity. An example of an allocation under Condition 2 is shown in Exhibit A.

(3) Condition 3

When Condition 1 is not in effect and when the total surplus energy declared available by BPA and Scheduling Utilities is less than the total available Intertie Capacity, BPA and Scheduling Utilities' allocations will equal their declarations. The remaining Intertie capacity will be made available to Extra-regional Utilities. Examples of the two possible allocation procedures under Condition 3 are shown in Appendix A.

(d) Modified Allocations Upon Commercial Operation Of The Third A.C. Interconnection. When the market power of California Intertie owners is reduced upon commercial operation of the Third AC interconnection, BPA will cease allocating individual Intertie capacity amounts to non-Federal utilities during Conditions 2

and 3. Instead, after allocating sufficient capacity to itself, BPA will to the extent practicable make the remaining Intertie Capacity available as a block to Scheduling Utilities, and make any residual amount under Condition 3 available to Extraregional Utilities. However, this provision will not be operative if the Administrator determines that:

(1) even after commercial operation of the Third A.C. Intertie access continues to be impaired for California utilities presently lacking ownership in the southern portion of the Intertie, or

(2) Southwest utilities utilize some pro rata scheme to allocate energy purchases over the Intertie.

Section 6. Access For Qualified Extraregional Resources

(a) Assured Delivery. Any request for Assured Delivery of power from a Qualified Extraregional Resource would be granted only by contract which, in addition to the Mitigation measures specified in section 4, must include benefits to BPA such as increased storage, improved system coordination or operation, or other consideration of value commensurate with the services provided. However, Canadian Extraregional Utilities will not be provided Assured Delivery service until the Administrator has determined that the capability of the Intertie is rated at approximately 7,900 MW. Proposed contracts would be evaluated by BPA and reviewed publicly to determine whether it would cause substantial interference with the Administrator's Power Marketing Program. An environmental review would also be conducted.

(b) Formula Allocation. Under Condition 3, energy from Canadian Qualified Extraregional Resources will have access to the Intertie to the extent that Intertie Capacity is available in excess of the amount used by BPA, ~~Scheduling~~ Northwest Utilities, and energy from U.S. Qualified Extraregional Resources. BPA may provide Qualified Extraregional Resources with some additional Formula Allocation, if the utility owner agrees by contract either to increased participation in the Pacific Northwest's coordinated planning and operation, or to provide other consideration of value, apart from the standard BPA wheeling rate, commensurate with the services provided.

Section 7. Fish and Wildlife Protection

(a) Purpose. Hydroelectric projects constructed in Protected Areas may substantially decrease the effectiveness of,

or substantially increase the need for, expenditures and other actions by BPA, under Northwest Power Act section 4(h), to protect, mitigate or enhance fish and wildlife resources. Intertie access will not be provided to facilitate the transmission of power generated by any new hydroelectric projects located in the Columbia River Basin, ~~Protected Areas~~, licensed after the effective date of this policy, which adversely impact BPA investments to protect, mitigate and enhance fish and wildlife, as determined by BPA. Upon expiration of a Federal Power Act license for an existing project located within a Protected Area, BPA will assist the licensee in developing any necessary protective conditions so that the project may continue to qualify for Intertie access.

~~(b) Implementation. This policy contemplates that BPA will implement, after review and possible modification, a comprehensive protected area program adopted by the Pacific Northwest Electric Power and Conservation Planning Council. In the meantime, BPA will adopt the Protected Area designations compiled by the Council staff. Exhibit B lists those stream reaches, using Environmental Protection Agency stream reach codes, currently designated by BPA as protected areas.~~

(b) Implementation. This policy contemplates that BPA will review proposed hydroelectric projects to be constructed in the Columbia River Basin to determine if they will adversely impact BPA's investments to protect, mitigate and enhance fish and wildlife resources. Should such adverse impacts be identified, and if these adverse impacts are not mitigated, BPA will impose the sanctions contained in Section 7(c). In making these determinations, BPA will utilize the information contained in the Regional Council's Hydro Data Base, the Protected Area Program after adoption by the Region Council, and other information available to BPA.

(c) Enforcement. If a ~~Scheduling~~ Northwest Utility or ~~Nonscheduling~~ Utility owns, or acquires the output from, a hydroelectric project covered under the restrictions of sections 7(a) and (b). BPA will reduce that utility's Assured Delivery capacity and the Formula Allocation made available to it under the Condition 1 ~~Hydro Cap~~ by either the nameplate rating of the project (in the case of ownership), or the amount of capacity acquired.

Section 8. Other Enforcement Provisions

Whenever the terms of this policy are not being met, BPA will inform the appropriate utility of the nature of the

noncompliance and actions that may be taken to achieve compliance. If noncompliance is not corrected within a reasonable period, BPA may impose an appropriate sanction. Sanctions include denial of access for a resource and refusal to accept schedules.

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # LT-IAP-3-04
RECEIPT DATE
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February 5, 1988

Ms. Donna Lou Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

Re: Long-Term Intertie Access Policy

Dear Ms. Geiger:

These comments are submitted on behalf of the Public Generating Pool (PGP). The PGP is a joint venture of seven publicly-owned utilities who own and operate their own resources and purchase power from the Bonneville Power Administration. Member utilities include Chelan Co. PUD, Cowlitz Co. PUD, Douglas Co. PUD, Eugene Water & Electric Board, Grant Co. PUD, Seattle City Light, and Tacoma City Light. These utilities have participated as a group and individually in the development process of BPA's Intertie Access Policy. The outcome of this Policy will have significant affect on the cost of power purchased from BPA, costs and benefits realized from firm sales, exchange or economy energy transactions, and participation in the 3rd Ac Intertie project.

The PGP supports generally the draft Intertie Access Policy. Suggested modifications are contained in these comments. We applaud BPA's efforts to address our concerns in this draft and to meet with all parties with an open mind during the past several weeks.

Our comments are organized into two sections. First, we state the principles which should form the basis of BPA's Final Long-term Intertie Access Policy (Policy). Second, we provide a section by section review which indicates whether or not modification to the Policy is appropriate.

PRINCIPLES

- The Policy should reflect a commitment to the regional partnership mandated by Congress between BPA and non-federal utilities.

- The Policy should ensure timely repayment of BPA's debt over the long-term.

- The Policy should protect BPA's fish and wildlife investments by not encouraging the development of new resources on

the Columbia River and its tributaries unless plans for the development of such resources demonstrate adequate mitigation.

- The Policy should reflect a commitment to efficient use and transmission of Pacific Northwest and extra-regional resources.

- The Policy should discourage anticompetitive transmission access.

- The Policy should recognize the value to BPA, Pacific Northwest utilities and Southwest utilities, of providing access for both firm transactions (including exchanges) and nonfirm transactions.

SECTION ANALYSIS

Section 1. Definitions.

5. Extra-regional Utilities - This definition should be clarified by using the following language:

> ". . . that do not provide retail electric service and own or operate significant amounts of generating capacity dedicated to Northwest loads."

6. FD Supported Sales - Eliminate this definition because it is not referenced in this Policy.

11. Nonscheduling Utility - The definition in the Policy is inadequate. On January 5 in the PGP/BPA IAP meeting, PGP representatives explained to BPA that the language for a scheduling utility excludes utilities like EWEB and Cowlitz from qualifying as a scheduling utility. BPA staff agreed that this was an oversight on their part and the language would be changed in the final IAP. We recommend that the following language be adopted:

> "a non-federal Pacific Northwest utility that has a non-federal generating resource, but does not operate a generation control area and is not designated as a BPA computed requirements customer."

13. Protected Area - This definition is unnecessary and should be replaced with broader language dedicated to protecting BPA's investments in fish and wildlife mitigation. See our comments on Section 7.

15. Qualified Northwest Resources - The proposed definition does not qualify Seattle City Light's Lucky Peak project or its High Ross Treaty. The language should be modified as follows:

> "(a) Generating resources located inside the Northwest that are in commercial operation during or before Operating Year 1988-89. Regarding . . ."
>
> "(b) . . ., based on the ratio of their respective regional loads to their respective total loads; Idaho Power Company's share of Valmy No. 2; and, Seattle City Light's High Ross Treaty."

17. Scheduling Utility - This definition should be modified for reasoning as stated earlier (Definition 11). We suggest the following language:

> "the Northwest portion of a non-federal utility which operates a generation control area within the Pacific Northwest, or any utility within BPA's generation control area that has a non-federal generating resource and is designated as a Computed Requirements customer."

18. Seasonal Exchange - In order to provide the necessary flexibility and accommodate a broader application of exchanges it is recommended that BPA's draft LTIAP (Section 4(d)(3)) be revised as indicated below:

> "There are a variety of potentially advantageous exchange transactions, other than seasonal energy exchanges, that could prove immediately, and in the future, to be of significant benefit to utilities in the Pacific Northwest and Southwest. It is not the purpose of this policy to preclude the pursuit or eventual granting of Assured Delivery for exchanges other than those exchanging energy on the basis of seasonal diversity. BPA will provide assured access for any type of reasonable exchange, provided that transaction substantially meets all of the Assured Delivery and Mitigation provisions of Section 4 and can be demonstrated, to BPA's satisfaction, that it would cause no corresponding adverse impacts on other

Coordination Agreement parties or northwest coordinated system operations."

Section 4(d)(5) should be modified by adding one sentence to the end of the section:

"BPA will permit a non-federal entity to convert Assured Delivery for a surplus power sale to Assured Delivery for an exchange."

Several Sections of the Policy need to be modified to accommodate this change:

Section 1 Definitions - (18) Seasonal Exchange
Section 4(c)(2) - Sales in Lieu of (Seasonal) Exchanges
Section 4(d)(3)(a) Assured Delivery for Seasonal Exchange - Existing Contracts
Section 4(d)(3)(b) Assured Delivery for Seasonal Exchange - Exhibit B Amounts
Section 4(d)(4)(a) Assured Delivery Mitigation - Seasonal Exchange Deliveries
Section 4(d)(4)(b) Assured Deliveries Mitigation - Seasonal Exchange Returns
Exhibit B - Intertie Capacity Available for Seasonal Exchanges

Section 1. New Definitions

In conjunction with the modifications proposed to Section 7, the following definitions should be added:

- New Hydroelectric Resources - hydroelectric resources within the region not having a FERC license as of the date of implementation of this Policy.

- Existing Hydroelectric Resources - hydroelectric resources within the region having a FERC license as of the date of implementation of this Policy.

Section 2. Intertie Capacity Reserved for BPA.

Section 2(c) should be removed from the policy because Joint Ventures (Section 4(c)(1)) and Sales in Lieu of Exchanges (Section 4(c)(2)) should utilize BPA's Intertie capacity described in Section 2(a).

Section 4(c)(I) and 4(c)(2) should be completed with the following sentence:

"Access will be made available from the federal portion of the Intertie and will not

cause a commensurate decrease in non-federal Assured Delivery or Formula Allocation access."

Section 5(a) should have a sentence inserted after ". . . to this policy."

"Intertie Capacity available for Formula Allocations for non-federal entities will not be reduced in order to provide access for Joint Ventures or Sales in Lieu of Exchanges. However, during Condition 1 . . .."

Section 3. Conditions For Intertie Access.

(d) The following sentence should be added to this section:

"This condition is applicable only to the existing Intertie, including scheduled DC upgrades."

Section 4. Assured Delivery for Intertie Access.

(a) Access For Utilities Owning or Controlling Southwest Interconnections - The PGP supports "use own first" philosophy recognizing that this is applicable only to the existing Intertie and shall not affect ownership or access of the 3rd AC line or other future transmission investments. We also recognize the appropriateness of allowing "swaps" between AC and DC access, similar to that embedded in the recently arranged agreement between BPA and Portland General Electric Company and the Glendale, Burbank and Pasadena, California sites. We suggest adoption of the language modification for Section 3(d).

(b) Waiver of BPA Service Obligation - This section should be clarified using the following language:

"A scheduling utility will receive Assured Delivery for firm sales if it agrees to waive BPA's obligation to serve that scheduling utility's firm load under its Power Sales Contract up to the amount of power given firm Intertie access if BPA is substantially impacted when BPA reaches load/resource balance."

(c) Transactions Not Subject to Exhibit B Limits Under This Policy - See our comments on Section 2(c).

(d) Transaction Subject to Exhibit B Limits Under This Policy - The PGP supports BPA in its decision to limit the Assured Deliveries to 800 MW's prior to commercial operation of the third AC. However, BPA has a responsibility to the regional utilities to have language in the IAP which gives some assurance that BPA will reopen the Assured Delivery section of the IAP for increasing such amounts after commercial operation of the third AC as well as when BPA reaches load/resource balance. This section should be modified as follows:

> "Section 4. Assured Delivery for Intertie Access.
>
> "Subject to the limitations and other conditions in this section and in other sections of this policy, BPA has determined that it can provide approximately 800 MW's (revised for accuracy, e.g. EWEB's Willamette Steam Plant and Tacoma City Light's Steam Plant #2) of Assured Delivery to scheduling utilities without causing substantial interference with the Administrator's Power Marketing Program. Upon commercial operation of the third AC as well as when BPA reaches load/resource balance, BPA will review the Assured Delivery requirements of the Pacific Northwest utilities and make additional intertie capacity available for Assured Deliveries consistent with the present policy."

Section 4(d)(4)(A) Firm Sales and Seasonal Exchange Deliveries

This section provides, that under condition 1, mitigation for loss of a nonfirm market will be provided in the form of purchases from BPA when a utility's Assured Delivery exceeds its Formula Allocation. This section should provide that all utilities, including BPA, are unharmed. This implies that any supplier's Formula Allocation, including BPA's, should be reduced by the amount of a utility's purchase.

However, the "make-up-the-difference" purchase is viewed by some utilities with potential firm transactions as a "deal-stopper." As a result, alternate mitigation proposals, including case-by-case mitigation and surcharges, are being considered. If such alternates are implemented, they must preserve utilities' access to nonfirm markets by assuring that each utility's formula allocation is not reduced by accommodating assured deliveries in excess of another utility's formula allocation. Through this means, BPA can be mitigated, and other scheduling utilities can remain unharmed by the transaction.

The last sentence in this section should read:

> "* * * If the remainder is negative for a given utility, then that utility may either purchase energy from BPA, at BPA's average rate (mills/kwh) realized from market expansion sales or purchase energy or allocation or both from other scheduling utilities, to make up the difference."

Section 4(d)(4)(B)(ii)

From the reading of this section, one could interpret it to mean that exchange energy, scheduled to be returned by contract, must be returned to the exchanging Northwest utility from a California generating resource when Condition 1 or 2 exists in the Northwest. This type of policy will only exacerbate the Northwest surplus at that time. We propose the following language:

> "(ii) During any hour in which BPA has invoked Condition 1 or Condition 2 allocation procedures to preschedule energy deliveries, a utility may use the cash out provision of its contract to the extent that:
>
> "(1) The utility has an allocation; and
>
> "(2) The return which is being cashed out is considered in the determination of the SW market or the Intertie, whichever is less.
>
> "The utility's allocation used for a cash out will not be available for other transactions. A utility may only cash out an amount up to its cash out or its allocation, whichever is less. To the extent that utility's allocation exceeds its return which is being cashed out, the difference may be sold over the Intertie. Cash out shall not be allowed for energy originally supplied to the SW during Condition 1. The rate of a cash out shall not exceed the rate at which the exchange return would have been scheduled under terms stated in the exchange contract."

Section 4(d)5 - Satisfying Requests for Assured Delivery

The February 1, 1989 deadline is acceptable (section 4(d)(5)) for initial requests for Assured Delivery for

Exchanges). BPA should recognize that extenuating circumstances may arise in the future which should permit some exceptions to this date. Surpluses (the basis for Exchanges) should be calculated based upon the PNUCC Northwest Regional Forecast along with other data which indicate that an Exchange can be supported by a non-federal utility without depending on other regional utilities. BPA should determine whether the demand for Exchanges exceeds Access available for such. If, before February 1, 1989, demand exceeds supply, then a prorata allocation should be used. If, before February 1, 1989, there is sufficient supply for requests for Exchanges, then any excess remaining should be made available on a pro rata basis if subsequent requests exceed available access.

Section 5. Formula Allocation.

The PGP endorses the use of Hydro Cap as the basis for calculating Formula Allocations. This approach will minimize the waste of Northwest resources by recognizing that both thermal and hydro resources are "stored" in the region's reservoirs, but, due to reservoir limitations, minimum flows, vagaries of weather, and load volatility, hydro resources are not nearly as dispatchable as thermal resources. The use of the Hydro Cap also makes sense because spill conditions often occur at the same time for all hydro resources in the region. Finally, the Hydro Cap method may not always accurately reflect surplus energy figures, however, it is a reasonable proxy.

(a) Allocation Methods - The PGP endorses the Hydro Cap concept.

Section 5(c)(1)(B)(ii)

There is no language which addresses how remaining Intertie access will be allocated after BPA allocates to the Southwest market. The following should be added to this section:

> ". . . is less than the available Intertie capacity, BPA will allocate remaining Intertie access based upon markets available through BPA's market expansion rates."

See comments on Section 5(a).

BPA should retain its proposal to allocate Intertie access based upon an assessment of the Southwest market. BPA's new proposal to allocate access based on the entire Intertie and then when BPA doesn't sell its entire allocation, to carryover that allocation which proved unmarketable is not acceptable. This new approach conflicts with wheeling rate principles which require

payment based on allocation and it introduces marketing uncertainty and confusion for non-federal utilities.

Section 5(d)(1) - Modified Allocations Upon Commercial Operation of the Third AC Interconnection

BPA should define the word "impaired" in this section to indicate a standard for future actions regarding Formula Allocation. The following language should be used:

> "BPA will consider access impaired for those utilities which 1) presently lack ownership or contractual rights in the southern portion of the Intertie and, 2) do not acquire ownership or contractual rights to the use of the third AC Intertie after its construction, if those utilities cannot purchase at reasonable, published wheeling rates, any portion of the Intertie capability to the Southwest not being used for transmission of power by the Intertie owners."

Section 6. Access for Qualified Extraregional Resources - no comments.

Section 7. Fish And Wildlife Protection.

We support generally comments submitted in this area by PNUCC. BPA's guiding principle in this section should be that its investment in fish and wildlife is not undermined. This section should demonstrate the commitment on the part of BPA to support FERC, a sister federal agency, and its responsibility under ECPA to require a balanced review of project development in terms of potential impacts to the environment.

This Policy should expect a utility which is planning to develop a resource on the Columbia River or its tributaries to demonstrate to BPA adequate mitigation for fish and wildlife protection.

BPA's primary concern in this section is to protect its fish and wildlife investments. BPA may also address the issue of insuring that Intertie access does not encourage development of inappropriate hydroelectric resources.

If BPA does reduce a project developer's Intertie access, it should not be for the following: Existing Hydroelectric Resources and modifications thereto; New Hydroelectric Resources with adequate mitigation demonstrated to BPA prior to development which are located on the Columbia River

or its tributaries; and, New Hydroelectric Resources acquired under PURPA.

If decrementing is adopted, we propose that BPA reduce a utility's Final Allocation only if the principles above and the following language are adopted:

> "(a) Purpose. New Hydroelectric Resources licensed after the effective date of this policy in the Columbia River Basin or its tributaries that may substantially decrease the effectiveness of, or substantially increase the need for, expenditures and other actions by BPA, under the Northwest Power Act Section 4(h), to protect, mitigate or enhance fish and wildlife resources, will not be provided Intertie Access.
>
> "(b) Implementation. It is the sponsoring utility's responsibility to demonstrate to BPA that its proposed resource will either enhance or protect BPA's fish and wildlife investment."

Section 8. Other Enforcement Provisions.

No comment.

Thank you for the opportunity to comment on this critical Policy. I am looking forward to receiving copies of comments submitted by other parties. Please let me know when these materials are available and I will arrange a delivery for such in Portland to assure sufficient time to develop comments by February 19th.

Sincerely yours,

Jerry Garman by DTW

Jerry Garman, Managing Agent
Public Generating Pool

cc: PGP



RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-125
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
All

cc: PJI
T Normandeau AL

February 5, 1988

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
Post Office Box 12999
Portland, Oregon 97212

Dear Donna,

Enclosed are the initial comments of the Public Power Council on BPA's revised draft Long-Term Intertie Access Policy. PPC appreciates the opportunity to participate in the development of this important federal policy.

Sincerely,

William K. Drummond for

Daniel M. Ogden, Jr.
Manager

Enclosure
t:ltr

Public Power Council 500 N.E. Multnomah, Suite 729 Portland, OR 97232 (503) 232-2427

LTIAP 3-125

Public Power Council
Comments on BPA's Draft
Long-Term Intertie Access Policy

Introduction

The Public Power Council welcomes the opportunity to submit comments on BPA's new draft Long-Term Intertie Access Policy (LTIAP), issued December 15, 1987. PPC in general supports BPA's determination to provide access procedures that can both protect federal revenues and provide some planning certainty to Northwest utilities who seek both to sell nonfirm energy and to establish long-term arrangements with California utilities. Existing anticompetitive practices in California should be taken into account by BPA in evaluating alternatives proposed at this point, and in considering the reaction of utilities in California who currently own and control transmission access in that state. Although the PPC membership holds diverse views on several issues, in certain areas a common statement of the interests of Northwest public power is possible.

PPC is concerned that BPA, after several months of internal deliberation and public meetings, has offered both significant changes to prior drafts of the LTIAP and new quantitative analyses, to which the customers must respond in an extremely short time frame. PPC recognizes that external forces may limit BPA's ability to extend the period for comments, but it is difficult to provide meaningful input within the schedule set by BPA.

PUBLIC POWER COUNCIL
500 N.E. Multnomah, Suite 729 Portland, OR 97232
(503) 232-2427

Assured Delivery

The amount of Assured Delivery that BPA makes available to scheduling utilities is a matter of interest to all members of PPC. While there are different perspectives on this issue, regional public utilities have continuing concerns about the range of the quantitative impact of Assured Delivery amounts. However, based on the public discussions of January 27, PPC believes that the idea of an added charge or charges (surcharge[s] in $/kW-year) for mitigation of revenue impacts on BPA has considerable merit and deserves further development. The main merit of this approach is its simplicity. Several principles should be followed in the expansion of this idea.

First, a methodology should be established for the computation of potential revenue impacts on BPA (costs and benefits) of allowing Assured Delivery that identifies the possible categories of such impacts (e.g., displaced nonfirm energy sales to California, displaced firm capacity sales, future energy resources avoided in the Northwest). Several categories exist for which there is no current information. Also, any changes made to the Formula Allocation provisions will affect the quantitative analysis of the need for mitigation.

Second, based on these categories of impacts, BPA should establish a set of charges, one for each category, that will

achieve BPA's goals in requiring mitigation. These charges would then compensate BPA for allowing Assured Delivery with no other forms of mitigation, and would serve as benchmarks for any utilities that prefer to negotiate mitigation in lieu of paying the charges.

Third, utilities should be allowed to negotiate mitigation via contract. It may be possible for scheduling utilities to establish operational mitigation measures that offset some or all categories of revenue impacts on BPA, if these categories are clearly defined up front. In this case, some or all of the mitigation charges would not apply to those Assured Delivery amounts.

Fourth, the charges should be established pursuant to a section 7(i) process and filed with the Federal Energy Regulatory Commission (FERC). In the interests both of providing some certainty to scheduling utilities and of ensuring that these charges do not vary widely from reality, the charges should be fixed for some period of time and then subject to revision by a 7(i) process. Fixing these charges for a period of five years appears reasonable given FERC guidelines for BPA's rates. If conditions have changed by the early 1990s, different charges might be appropriate.

On a separate matter, BPA proposes an Assured Delivery amount of 105 MW for Montana Power Company (MPC) in settlement of a suit brought by MPC pursuant to section 9(i)(3) of the Northwest Power Act. Without endorsing the

particular amount of Assured Delivery as appropriate to this suit, PPC has one concern and one question regarding this proposed settlement. First, BPA should receive written assurances from MPC that this particular amount will indeed lead to settlement of the dispute. Second, if such an amount does <u>not</u> lead to a settlement, what provision will be made in the Policy for an appropriate amount of Assured Delivery <u>without</u> MPC's 105 MW? The written assurance should be received and the question answered before the final LTIAP is released.

Several questions have been raised about the possibility that utilities currently without scheduling capability might seek Assured Delivery in the future. PPC believes that these questions can be answered by defining "scheduling utilities" for the purposes of the Policy as "computed requirements customers". BPA should give serious consideration to providing Assured Delivery to new computed requirements customers.

Finally, once an amount of Assured Delivery is determined for the final policy, there should be no strict limitations within that amount regarding the split between power sales and exchanges, except to the extent that Exhibit B limits firm power sales. Estimated impacts of nonfederal power sales and exchanges on BPA's revenues have changed over time, and will undoubtedly change in the future. Some of these contracts may begin as power sales and convert to

exchanges, in which case the potential revenue impact on BPA has not yet been analyzed. Further, once categories for mitigation have been established, scheduling utilities should be able to either negotiate operating provisions to offset those impacts on BPA's revenues, or provide compensation via charges. In either case, once a total limit on Assured Delivery is established, strict limitations on exchanges are not necessary. PPC concludes that a limit on exchanges within the total amount of Assured Delivery may not comport with market conditions, in which case contracts that may provide benefits to the region will be foregone.

Formula Allocation

PPC recommends that some kind of allocation mechanism be continued under Conditions 1 and 2. Until and unless anticompetitive practices in California are altered, these measures provide for reasonable protection of federal revenues necessary to meet BPA's obligations to the Treasury. Recommendations by California owners of the southern Intertie that amounts be reserved by BPA on an hourly basis only for actual federal sales will lead to a return to the conditions before September 1984, when California's monopsony power determined prices.

PPC is uncertain that competitive conditions on the southern end of the Intertie will improve upon completion of the Third AC and the California-Oregon Transmission Project.

On the other hand, access conditions could change in California absent the Third AC/COTP, given current antitrust suits brought by some of those currently denied access. Thus, there is no need to tie the language of section 5(d) of the Policy only to the Third AC. Furthermore, the 5(d) language should be changed to a presumption of no change in competitive access, unless BPA determines in a public process that conditions have indeed changed.

Fish and Wildlife

Several aspects of the Policy's proposals for fish and wildlife protection are of serious concern to members of the PPC. We firmly agree that the goal of any such provisions should be the protection of BPA's investment in fish and wildlife protection. Public utilities in the Northwest have contributed to these investments through the Priority Firm rate, and share a desire to ensure that such investments are not harmed. However, less onerous provisions should be possible that will achieve that recognized goal without the burdensome impacts of BPA's current proposal.

First and most fundamentally, the Policy's proposed adoption of the Regional Council staff's draft Protected Areas Designation is premature at best. The idea is in its infancy and the Council itself has not adopted the concept, either in its current draft form or in some other form, and may not ever do so. If BPA adopts the draft Protected Areas

concept, modified only by a limitation to the Columbia River Basin, the Regional Council could eventually adopt a different definition that includes provisions detrimental to BPA and its customers. Under these circumstances, BPA should clearly seek another standard, preferably of its own design. PPC is concerned about the apparent dependence of BPA's proposed Policy on deliberations of the Regional Council, which is a planning agency. As a federal power marketing agency with separate and distinct statutory and contractual responsibilities, BPA should maintain independence from the Council's planning activities in this as well as other areas.

Second, BPA's proposed language will cause anticompetitive impacts on both current nonfederal sales and future resource development. Under BPA's proposed language, utilities seeking Assured Delivery to support long-term contracts may find that they are not allowed to continue deliveries after relicensing. The uncertainty associated with these long-term deliveries may so diminish the value of the sale in the eyes of the purchaser that no such contracts will be signed. Such actions preclude nonfederal competition for sales to California. Furthermore, the conditions attached both to new projects and to the relicensing of existing projects will jeopardize the regional development of resources that also may compete with federal resources. Again, the restrictions will have an anticompetitive impact. Finally, application of the Protected Areas concept to

relicensing is not necessary because the Council's Fish and Wildlife Program already states what is necessary for fish protection at existing projects. In this case, BPA's proposed language is redundant.

Third, the restrictions may easily thwart the development of new resources for which adequate accommodations to fish protection could be achieved, and for which Intertie access is temporarily necessary to justify construction. In some cases, access to the Intertie may be necessary for the nonfirm energy output of a hydroelectric resource, because markets for such economy energy are normally available in California. At least in the case of Oregon, if lack of access delays or thwarts development past the expiration date of an existing FERC license, the site may be barred indefinitely from use by law, notwithstanding a demonstrated ability to mitigate any impacts on fish and wildlife. BPA's proposed actions threaten to increase the cost of electricity in the region in a totally unnecessary fashion.

Instead of a rigid application of the Protected Areas concept, BPA should simply require the developer of a hydroelectric project to demonstrate adequate mitigation of any impacts on fish and wildlife. Absent such a demonstration, penalties may be appropriate to protect the federal investment in fish and wildlife mitigation measures.

If BPA insists on a protected area concept, either its own or the Council's, with the penalties outlined in the draft Policy, several clarifications are necessary. First, the second sentence of section 1(13) appears to expand the concept of Protected Areas beyond the Columbia River basin, contrary to BPA's stated intent. Second, the decrements pursuant to section 7(c) should be clarified. Are the reductions effective against both Assured Delivery and Formula Allocation amounts (a double reduction)? For Formula Allocations, are the reductions effective against the Hydro Capacity, the Maximum Allocation, the Initial Allocation, the Adjusted Allocation, or the Final Allocation? Finally, PPC recommends that if BPA must include a Protected Areas designation in its LTIAP, the alternative presented by PNUCC to the Regional Council should be used.

February 5, 1988
lp6:LTIAP

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-IDA
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
WL (OWL)
CC: PSI / S. Hammond ALC

STATE OF IDAHO
OFFICE OF THE ATTORNEY GENERAL
BOISE 83720

JIM JONES
ATTORNEY GENERAL

TELEPHONE
(208) 334-2400

February 5, 1988

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Re: Revised Draft Long Term Intertie Access Policy

Dear Ms. Geiger:

Thank you for the opportunity to comment on BPA's Revised Draft Long Term Intertie Access Policy ("revised policy").

The revised policy's provisions regarding new resources are an improvement over the draft Long Term Intertie Access Policy of October, 1986. The new resources provisions are now unambiguous and enforceable. However, BPA should make provisions in case the protected areas program is not incorporated into the Columbia River Basin Fish and Wildlife Program. If the protected areas program is abandoned, delayed or limited, BPA should not be left without a replacement policy for new resources.

Automatic decrementing of the nameplate capacity of resources that are in violation of the IAP is desirable in order to make the policy enforceable.

The inclusion of existing projects in the revised policy is sound and necessary. However, it may not be effective to apply the IAP only at the relicensing stage before the Federal Energy Regulatory Commission, which in many cases may be decades away. Moreover, it is difficult to evaluate the effectiveness of a requirement that BPA intervene in relicensing proceedings where the particular fish and wildlife protections to be imposed are unknown. The revised policy leaves the level of "assistance" and

the "necessary protective conditions" to BPA's discretion and therefore makes the outcome uncertain.

We recommend that the IAP simply require consistency with the Columbia River Basin Fish and Wildlife Program as a precondition to intertie access. The conditions for existing resources are predictable because they are set forth in the program. Additionally, project operators have the opportunity to comment on such conditions prior to their adoption by the Council. Requiring consistency with the Fish and Wildlife Program comports with the statements of the United States Court of Appeals for the Ninth Circuit in California Energy Commission v. Bonneville Power Administration, No. 84-7836, et al. (slip op., Nov. 6, 1987).

Federal projects should be included in the policy. There is no reason for requiring consistency with the Fish and Wildlife Program for non-federal projects without imposing a similar obligation on federal projects.

Finally, it is necessary again to emphasize that intertie operations cause adverse impacts to migrating salmon and steelhead. Some of these adverse impacts are due to the provisions of the IAP. These impacts must be adequately mitigated. For instance, Condition 1 of the IAP intentionally seeks to minimize the occurrence of inadvertent spill. While this has definite benefits to the hydroelectric power system, it also increases turbine mortality to juvenile anadromous fish. Therefore, BPA should reach agreement with the region's fisheries agencies and Indian tribes on an improved planned spill program. Such an agreement would permit a more harmonious relationship between the hydroelectric power system and the salmon and steelhead resource.

Sincerely,

William S. Whelan

William S. Whelan
Deputy Attorney General
Natural Resources Division

WSW:et

State of Montana
Office of the Governor
Helena, Montana 59620
406-444-3111

TED SCHWINDEN
GOVERNOR

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LIAP-3-127
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
C/ Helena
UM (OKK)
CC: AL-15
ALG

February 5, 1988

Mr. James J. Jura
Administrator
Bonneville Power Administration
P. O. Box 12999
Portland, Oregon 97212

Dear Mr. Jura:

Thank you for the opportunity to review and provide comments on Bonneville Power Administration's (BPA) revised draft Intertie Access Policy (IAP).

The State of Montana supports BPA's proposal to increase Montana Power Company's (MPC) Assured Delivery allocation to 105 MW as part of the IAP. This proposal will allow MPC to carry out its existing contracts for sale of power from Colstrip Unit 4, and is the minimum amount of Assured Delivery BPA can provide MPC without potentially causing a serious threat to the financial health of MPC. It is essential that MPC be able to market as much surplus power in the short term from Colstrip 4 as possible. I have attached a copy of my September 30, 1986 letter to you that contains additional information regarding our concerns for the ability of MPC to market power from Colstrip 4.

Increasing MPC's Assured Delivery is an important step in satisfying BPA's responsibilities to MPC arising from MPC's offer to sell its share of Colstrip Unit 4 to BPA under Section 9(i)(3) of the Northwest Power Act. However, I recognize that BPA and MPC have not reached a final settlement of the issues relating to that offer. I urge BPA to incorporate the terms of a settlement in the IAP, if one can be reached, before the final IAP is adopted. If a settlement cannot be reached before that time, the IAP must remain flexible enough to incorporate the terms of a later agreement, while allowing MPC to meet its existing sales obligations.

I also commend BPA for recognizing the Northwest Power Planning Council's protected areas concept in the revised

draft IAP. This portion of the policy may need to be revisited after the Council has competed its deliberations on protected areas.

Sincerely,

TED SCHWINDEN
Governor

Enclosure

Attachment
LTIAP-3-127

September 30, 1986

Mr. James J. Jura, Administrator
Bonneville Power Administration
Department of Energy
P.O. Box 3621
Portland, OR 97208-3621

Dear Mr. Jura:

On August 18, I wrote to you regarding my concern about BPA's rates and their impacts on several Montana citizens. Today, I am writing to you regarding another matter of critical importance to Montana: Intertie transmission to assist Montana Power in marketing power from its share of Colstrip Unit #4. Although I would have preferred to discuss this issue in person when I meet with you in late October, the urgency of the matter and the short period in which it may be resolved would not allow delay.

As you are aware, Montana Power has for some time been attempting to market the power produced by its share of Colstrip Unit #4. The Company's current plan for marketing that power, I believe, reflects a positive benefit to Montana and, more generally, the Pacific Northwest region. Currently, the Company is planning to sell one-half of the power under a long-term contract. Montana Power plans to keep one-half available to serve its customers if they need it, by selling it on the spot market or under short term contracts. Unless Montana Power is able to enter into a long term sale, it may be forced financially to sell its entire interest in Colstrip Unit #4. In this case, Montana and the region could lose a valuable resource for the future.

Recently, Montana Power reached an agreement in principle with the City of Los Angeles under which, in general terms, Los Angeles would purchase one-half of Montana Power's share of Colstrip Unit #4 for a period of at least 20 years. The sale can only take place if Montana Power gains intertie access. I am writing to encourage you to consider this request.

Although I am aware that BPA has several objectives that it must meet and that it must serve the needs of several different customer groups, BPA also has responsibilities to the Pacific Northwest Region. One of those responsibilities, as I am sure you are aware, is mandated by §9(i)(3) of the Northwest Power Act. That section requires BPA to assist in the marketing of power from certain resources. It is my understanding that Montana Power has such a priority with regard to Colstrip Unit #4. It seem to me that §9(i)(3) is the solution to Montana Power's problem, because it is statutorily mandated and provides BPA with a justification for providing Montana Power with access to the Pacific Northwest/Pacific Southwest Intertie.

I understand that BPA intends to publish its long-term Intertie Access Policy, in draft, on October 17, 1986. I would urge BPA to provide Montana Power firm Intertie access for its power from Colstrip Unit #4 either under a provision dealing with §9(i)(3) or other provisions. I am concerned that failure to allow such access will have severe adverse effects not only on Montana Power, but also on Montana and the Pacific Northwest.

Sincerely,

TED SCHWINDEN
Governor

RAVALLI COUNTY
ELECTRIC COOPERATIVE, INC.
N.E. 1051-East Side Highway • Box 109 • Corvallis, Montana 59828
406-961-3001

February 2, 1988

RECEIVED BY
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-128
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
UM (OKK)
CC: AL-15

Mr. Jim Jura
Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

Dear Mr. Jura:

Ravalli County Electric is concerned about third party access to the intertie system. We feel that control of the intertie is in Bonneville's best interest as well as that of all full requirements customers.

In order to retain any semblance of competitiveness in the electric market, BPA must take care of its own needs before you worry about private power interests.

Access to the intertie could be opened to bids after BPA's needs are met.

Thank you for your consideration.

Sincerely,

Ric Brown
Assistant to the Manager

RB/jc

COWLITZ COUNTY PUD • ELECTRIC AND WATER SERVICE

960 COMMERCE AVENUE • BOX NO. 3007 • LONGVIEW, WASHINGTON 98632 • TELEPHONE 206 423-2210

Board of Commissioners:
HOWARD B. RICHMAN STEVEN L. FERRELL GALEN VANCUREN

General Manager
ROBERT L. McKINNEY

February 4, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-69
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
PT L (OP)

Teresa Cunningham Byrnes
Acting Public Involvement Manager
Bonneville Power Administration
P. O. Box 12999
Portland, Oregon 97212

Re: Comments on Long Term Intertie Access Policy - ALP

Dear Ms. Byrnes:

These comments address specific concerns of Cowlitz County PUD regarding your proposed Long Term Intertie Access Policy (LTIAP).

Cowlitz PUD is a Computed Requirements customer of BPA. We have a limited amount of our own resources but the majority of our load (over 85%) is served with power purchased from BPA at the PF rate. Our service area is totally within BPAs generation control area and therefore we are not a scheduling utility in the strictest definition of this term. All of our non-federal resources are scheduled through other generation control areas, (Grant PUD, PP&L). This is the basis for our concern about the definition of Scheduling Utilities on Page 3 of the draft policy. We suggest the following language to correct this problem:

> **"Scheduling Utility" means the Northwest portion of a non-federal utility which operates a generation control area within the Pacific Northwest, or any utility within BPAs generation control area that has non-federal generating resources and which is designated as a Computed Requirements customer.**
>
> **"Nonscheduling Utility" means a non-federal Pacific Northwest utility that has a non-federal generating resource, but does not operate a generation control area and is not designated as a Computed Requirements customer.**

Another serious concern has to do with a longstanding arrangement for sale of Longview Fibre Company energy to Western Area Power Administration. Since 1983, 45 average mw of cogenerated energy from Longview Fibre Company (LFC), has been marketed to WAPA via the PNW/PSW transmission intertie. This was accomplished from 1983 to 1986 under a wheeling letter agreement, and more recently under a transmission agreement dated April 28, 1986 (BPA Contract #DE-MS79-86BP91952).

No one questions the substantial benefit this arrangement has brought to all the parties: a reliable power supply to WAPA, sales revenues to LFC, wheeling revenues to BPA and Cowlitz PUD, and sale of 45 average mw of firm BPA power at the PF rate to a load (LFC) that otherwise would have been served by internal cogeneration. All at a time when BPA was experiencing significant power surplus and revenue deficiencies. This very valuable sale is not specifically provided for in the draft LTIAP. We believe this sale should be allowed to continue for the benefit of all the parties as stated above, and that it should not be subject to mitigation conditions because first, this sale is a pre-existing commitment and second, there are no negative impacts on BPA that need mitigating. To the contrary, this sale provides very positive benefits to BPA in the form of guaranteed revenues that are substantial compared to speculative sales of nonfirm or surplus firm which might occur absent this sale. In addition, there are significant benefits to the other customers of Cowlitz PUD which will be lost if assured access is not continued.

In our comments of January 22, 1988, we outlined specific language changes in the LTIAP that would provide for a continuation of the LFC/WAPA sale. We are again enclosing marked up copies of these suggestions for your convenience.

Cowlitz County PUD also supports the comments and suggestions submitted by the Public Generating Pool. Thank you for the opportunity to comment.

Yours very truly,

J. Leon Smith
Power Manager

ml
Enclosure

cc: Tom Noguchi, Area Office
Eric Wong, WAPA
John Cameron, BPA

generating resources owned or controlled by Nonscheduling Utilities, it must be demonstrated that a relationship had been established by that date with a Scheduling Utility or BPA to serve Northwest loads.

(b) Scheduling Utility extraregional generating resources dedicated to Northwest loads on the effective date of this policy. This term includes pro rata portions of Montana Power Company's and Pacific Power and Light Company's shares of the Colstrip No. 4 generating station, based on the ratio of their respective regional loads to their respective total loads; and Idaho Power Company's share of Valmy No. 2.

(c) New regional resources of Scheduling Utilities, except for hydroelectric resources located in Protected Areas, needed to support power contracts receiving Assured Delivery service under this policy.

16. "Resource" means an identified electric generating unit or stack of particular electric generating units identified to supply power or capacity for sale over the Intertie.

17. "Scheduling Utility" means the Northwest portion of a non-Federal utility that operates a generation control area within the Northwest.

18. "Seasonal Exchange" means a transaction that takes advantage of seasonal diversity between Northwest and Southwest loads through transfers of firm power, at a prespecified delivery rate, from North to South during the Southwest's summer load season and from South to North during the Northwest's winter load season. Seasonal Exchanges may involve payments of additional consideration to reflect the relative seasonal values of power throughout the western United States. Seasonal Exchange schedules of Northwest utilities will be referred to as "deliveries," and schedules of Southwest utilities will be referenced as "returns." A Scheduling Utility must be able to support its summertime firm power deliveries with generating resources that are surplus to its Northwest requirements. The sum of a Scheduling Utility's energy resources for each month in which deliveries are made (with special concern for August) must exceed its corresponding Northwest loads by an amount sufficient to support the Seasonal Exchange.

19. "Section 9(1)(3) resource" means a Scheduling Utility resource that BPA has granted priority in receiving BPA transmission, storage and load factoring services.

Section 2. Intertie Capacity Reserved for BPA

The Administrator reserves for BPA's use Intertie Capacity sufficient to:

(a) deliver the full amount of BPA's surplus firm power,

(b) perform obligations under existing BPA transmission ~~contracts~~ *agreements* listed in Exhibit C, to the extent such obligations differ from the conditions specified in this policy, and

(c) provide Assured Delivery service for transactions not subject to limits under Exhibit B to this policy.

Section 3. Conditions For Intertie Access

(a) All Intertie access will be granted pursuant to the conditions and procedures of this policy, unless otherwise specified in the ~~three~~ existing BPA transmission ~~contracts~~ *agreements* listed in Exhibit C.

(b) BPA will provide Intertie access only for BPA Resources and the Qualified Northwest Resources of Scheduling Utilities, except to the extent that Qualified Extraregional Resources are permitted access under this policy.

(c) BPA will provide Assured Delivery and allocate remaining Intertie Capacity when providing such access will not substantially interfere with operating limitations of the Federal system. Examples of these limitations, which reflect BPA's obligation to operate in an economical and reliable manner consistent with prudent utility practices, include:

(1) The BPA reliability criteria and standards,
(2) Western Systems Coordinating Council minimum operating reliability criteria,
(3) North American Electric Reliability Council Operating Committee minimum criteria for operating reliability, and
(4) coordination agreements among BPA, scheduling utilities and other Federal agencies regarding resource and river operations.

(d) Any utility that has contractual or ownership rights to transmission capacity to Southwest utilities must be fully utilizing such capacity prior to receiving any access to BPA Intertie Capacity.

Section 4. Assured Delivery for Intertie Access

Subject to the limitations and other conditions in this section and in other sections of this policy, BPA has determined that it can provide Assured Delivery to Scheduling Utilities without causing substantial interference with the Administrator's Power Marketing Program.

(a) Access For Utilities Owning Or Controlling Southwest Interconnections

Assured Delivery is intended primarily for Scheduling Utilities which lack interconnections with the Southwest. A utility with transmission access to Southwest utilities, through contract or ownership, must utilize all such capacity on a firm basis before receiving any Assured Delivery. A utility is eligible for Assured Delivery only to the extent that the sum of its Exhibit B amounts exceeds its own transmission capacity to the Southwest.

(b) Waiver Of BPA Service Obligation. Assured Delivery contracts must contain a waiver of BPA's obligation under the Scheduling Utility's power sales contract, up to the amount of power for which firm Intertie access is provided.

(c) Transactions Not Subject To Exhibit B Limits Under This Policy

(1) Joint Ventures. Joint ventures between BPA and utilities, such as firm displacement contracts, which allow BPA to increase its sales of surplus power qualify for Assured Delivery.

(2) Sales In Lieu Of Exchanges. BPA may offer to satisfy Scheduling Utility demands for Seasonal Exchanges by selling them incremental amounts of surplus firm power during winter months. Upon committing to purchase such incremental firm power at negotiated prices that reflect BPA's lost opportunities for summer sales, a Scheduling Utility will qualify for Assured Delivery (with mitigation) to wheel an equal amount of firm capacity and energy over the Intertie during summer months.

(3) Existing Transmission Agreements. BPA will provide Assured Delivery for the remaining term of the BPA transmission agreements identified in Part 2 of Exhibit C to this policy.

(4) ~~(3)~~ Conditions. A Scheduling Utility may request at any time the Assured Delivery of transactions identified in sections 4(c)(1) and 4(c)(2). Relevant contracts must be presented for review when Assured Delivery is requested. BPA will satisfy a request within 60 days after a Scheduling Utility has demonstrated satisfaction of the requirements of this policy.

(d) Transactions Subject To Exhibit B Limits Under This Policy

(1) Maximum Amounts Of Assured Delivery. BPA will provide 800 MW of Assured Delivery for transactions, limited by Exhibit B amounts, that are identified in this policy. BPA will determine the amount of any additional Assured Delivery increment after conclusion of the Third AC participation process. Moreover, the 800 MW amount may be subject to some reduction if the DC terminal expansion project is not completed on schedule.

(2) Firm Power Sales

(A) Existing Transmission Contracts. BPA will provide Assured Delivery for the remaining term of the ~~firm power sale contract~~ *BPA transmission contracts* identified in *Part 1 of* Exhibit C to this policy.

(B) Exhibit B amounts.

(i) Current maximum. Each Scheduling Utility's maximum Assured Delivery amount for firm sales equals its average firm energy surplus, shown in Exhibit B to this policy. Except for Montana Power Company (MPC), Exhibit B represents projected Scheduling Utility surpluses for the 1988-89 operating year. In satisfaction of all obligations to MPC under Northwest Power Act section 9(i)(3), MPC's Exhibit B amount is set at 105 MW to facilitate long-term sales of firm power from its share of the Colstrip No. 4 coal-fired generating station.

(ii) Future changes. BPA may, at its discretion, revise Exhibit B to reflect changes in the firm power surpluses of individual utilities; however, the 361 MW Exhibit B average firm surplus total is not subject to increase. Any unutilized Assured Delivery amount is revoked if, upon revision, a utility's individual Exhibit B amount has declined or if a utility has sold firm power to another utility seeking to increase its Exhibit B average firm surplus amount. A Scheduling Utility may increase its individual Exhibit B amount by purchasing surplus firm power from BPA or any Scheduling Utility with an Exhibit B amount.

EXHIBIT C
EXISTING AGREEMENTS FOR INTERTIE CAPACITY

Part 1

This is a list of existing BPA transmission contracts that were signed before the implementation of the Near-Term IAP and will continue to receive Intertie access under the Long-Term IAP, *Section 4(c)(2)(A).*

Utility	BPA Contract No.	Expiration Date
Washington Water Power Company	DE-MS79-81BP90185	07/01/91
Washington Water Power Company	14-03-791101	09/01/88
Western Area Power Administration	DE-MS79-84BP91627	10/31/90

Part 2

This is a listing of existing transmission agreements entered into prior to implementation of the Near-Term IAP and will continue to receive Intertie access under the Long-Term IAP, Section 4(c)(3).

Utility	*Contract or Agreement*	*Expiration Date*
Cowlitz County PUD (Longview Fibre/WAPA)	*DE-MS79-86BP91853*	*12-31-05*

TACOMA PUBLIC UTILITIES

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DIVISIONS
Light
Water
Belt Line

February 5, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: PTIAP-3-130
RECEIPT DATE
FEB 05 1988
AREA:
U (OK)

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P. O. Box 1299
Portland, Oregon 97212

Dear Ms. Geiger:

The City of Tacoma recognizes the significant and far-reaching impacts that the Bonneville Power Administration's (BPA) Long Term Intertie Access Policy (LTIAP) will have upon the region's utility industry and, more specifically, our customers. We have participated in the preparation and fully support the comments submitted to your office on behalf of the Public Generating Pool, however, Tacoma has some additional comments regarding the draft LTIAP, which are as follows:

BPA's DRAFT LTIAP REVIEW AND COMMENT PERIOD PROCESS

BPA has offered various proposals for public review that differ significantly from the provisions of the original draft LTIAP. This infusion of new proposals by BPA during the draft LTIAP review period has made the comment preparation process extremely difficult. This difficulty becomes particularly pronounced when one attempts to understand or differentiate between the various interdependent sections of the draft LTIAP for which we now have several BPA proposals.

We understand that, by presenting these new proposals, BPA was attempting to insure that all legitimate alternatives were brought forward for discussion and consideration. However, due to the complexity and high interest level that this policy issue represents, we feel that the presentation of additional proposals has created unnecessary confusion. The exploration of new proposals should be initiated by the various parties through their comment submittals and subsequent review of initial comments, rather than by BPA.

ASSURED DELIVERY FOR INTERTIE ACCESS

Tacoma's firm power sales contract with the Western Area Power Administration (WAPA) was executed on August 31, 1983, and BPA subsequently granted intertie access for this transaction under the Near Term LTIAP. Assured delivery for this firm sale was granted after Tacoma and WAPA went to great lengths to accommodate all of BPA's concerns.

If assured access had been denied at the outset, WAPA would have gone to its alternative source of power, which was outside the northwest region. This course of events would have exacerbated the surplus condition in the northwest and adversely impacted BPA's revenue because, without the WAPA sale, Tacoma would have had to take the associated power into its system and reduce its dependency upon BPA.

BPA has verbally indicated that Tacoma will receive assured delivery for the WAPA transaction under the LTIAP provisions relating to an Exhibit B amount. This approach would make Tacoma's transaction with WAPA susceptible to mitigation. It is our contention that our WAPA transaction has and will continue to provide benefits to BPA and that no additional mitigation is required. Prior to receiving our initial assured delivery, Tacoma and WAPA made a concerted effort and offered numerous concessions (Contract revisions, re-shaping, power purchases, etc.) in order to satisfy BPA's needs.

A joint venture type approach to our WAPA transaction would substantiate BPA's past support and commitment to this arrangement and further demonstrate your willingness to facilitate, participate in and safeguard beneficial partnerships between northwest and southwest utilities. BPA's continued support for our WAPA contract would also provide a valuable degree of assurance, to those southwest utilities contemplating relationships with BPA or other northwest parties, that we represent a stable and consistent resource option.

We feel that BPA made a commitment to WAPA and Tacoma after having ensured that BPA's needs would be met over the term of the transaction and that this commitment should not be abandoned or continued on the basis of extracting additional mitigation. It does not appear unreasonable from either a BPA revenue or interregional perspective to grandfather Tacoma's arrangement with WAPA as a pre-existing firm contract that has been recognized and sufficiently mitigated under past intertie policies.

Yours very truly,

Mark Crisson

Mark Crisson
Superintendent
Light Division

SNAKE RIVER
HYDRO POWER

IDAHO POWER COMPANY

BOX 70 • BOISE, IDAHO 83707

JOSEPH W MARSHALL
Vice President
Planning,
Resources and Rates

February 5, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-131
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
WL (OWL)

Ms Teresa Cunningham Byrnes
Acting Public Involvement Manager
Bonneville Power Administration
P O Box 12999
Portland, Oregon 97212

Re:_ Revised Draft Long-Term Intertie Access Policy

Dear Ms Byrnes:

This is in response to Bonneville's inviting comments on its revised draft -- Long-Term Intertie Access Policy of December 15, 1987. The Idaho Power Company has responded on numerous occasions both individually and collectively through the Intercompany Pool organization on various drafts of Bonneville's Intertie Access Policy, including a letter directly from Mr R. J O'Connor of Idaho Power Company to Mr J Jura of Bonneville. Unfortunately, the revised draft of December 15 did little to address our concerns over previous drafts.

While subsequent discussions at public meetings and private consultations by various Bonneville officials has led us to believe Bonneville may modify some aspects of the policy which we found most objectionable, our comments herein are directed at the published December 15th revised draft and should be considered in addition to our previous written comments and those of the ICP. For brevity sake, we will not repeat our earlier comments on the earlier drafts of the Intertie Access Policy; however, they remain valid and reflective of our concerns.

There are four issues in the revised draft of December 15, 1987 that essentially preclude Idaho Power's ability to market its Exhibit B, Firm Allocation:

1. The requirement for contract language that would allow Bonneville to eliminate assured delivery at its discretion if Idaho Power acquired alternative ownership or contractual transmission rights to any utility in the southwest.

2. The requirement for contract language that would allow Bonneville to eliminate assured delivery at its discretion if one of Idaho Power's existing hydro plants becomes unrelicensable because it falls into a "protected area" or is licensed in a manner unacceptable to Bonneville.

3. The requirement for contract language that would allow Bonneville to eliminate assured delivery at its discretion if Idaho Power would accept PURPA contracted power from a future hydro facility located in a designated "protected area".

4. Idaho Power's inability to fairly determine its financial liability and exposure to mitigation costs up front in a condition one setting.

The solution to our first three issues is simple. They have no place in the access policy. If assured delivery can be reduced or removed by Bonneville at its discretion in response to an activity by Idaho Power that is legal, very possibly totally outside its control, or even possibly beneficial to the needs of its customers, there can be no firm contracts between Idaho and the Southwest over the "Bonneville controlled" intertie. The solution to our fourth issue must provide a clear mitigation cost up front such as a "surcharge" or "annual subscription" that allows the contracting parties to know up front the total transportation cost associated with power sale and purchase agreements. No one is signing blank checks.

It would appear that these four issues as others and their resulting impacts would be obvious to Bonneville, therefore demonstrating that they are purposely designed to ensure nonparticipation by Idaho Power and others on what we consider a "regional asset" entrusted to Bonneville's leadership for regional benefit. Certainly the rate payers of the Idaho Power Company have no less a vested interest in the use of the Pacific Intertie as do those of Bonneville. Any consideration given our concerns is, of course, appreciated.

Very truly yours,

J W Marshall

:eaw

Natural Resources Defense Council

90 New Montgomery
San Francisco, CA 94105
415 777-0220

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-132
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
P-3

February 4, 1988

Jo Ann C. Scott
Public Involvement Manager -- ALP
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97232

re: NRDC's Initial Comments on BPA's Long-Term Intertie Access Policy

Dear Ms. Scott:

Congratulations on your appointment as Public Involvement Manager! The two attachments -- dated January 8 and February 4, respectively -- jointly constitute NRDC's initial comments on BPA's Revised Draft of the Long-Term Intertie Access Policy, which was released to the public on December 15, 1988. Please circulate these materials to the appropriate parties within and outside the agency. We would also appreciate receiving submissions by other participants in this proceeding.

Thank you for your assistance in this matter.

Yours sincerely,

Ralph Cavanagh

Ralph Cavanagh
Senior Staff Attorney

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Attachment
LTIAP-3-132

Natural Resources Defense Council

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San Francisco, CA 94105
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QUESTIONS & ANSWERS ABOUT BPA'S LONG-TERM INTERTIE ACCESS POLICY
by Ralph Cavanagh

February 4, 1988

Since the release on January 8, 1988 of NRDC's initial comments on BPA's Intertie Access Policy, some questions have been raised about the Policy's fish and wildlife provisions. The responses below, supplemented by those initial comments, are submitted as part of NRDC's initial response to the Policy's Revised Draft.[1]

1. Aren't environmentalists just trying to use the Intertie Access Policy to advance fish and wildlife protection goals that are unrelated to the Intertie itself?

All of the safeguards endorsed or proposed in NRDC's memorandum of January 8 are tied directly to concerns arising from Intertie transactions or actions that anticipate or support such transactions. We are attempting to prevent the Intertie itself from becoming a vehicle for environmental damage, not to add a new sanction for environmental violations that are unrelated to the Intertie.

Moreover, no one can dispute that the export markets associated with Intertie access exert potent influence over decisions about developing and operating resources. For example, the Federal Energy Regulatory Commission has repeatedly invoked California markets as part of the justification for building Northwest hydropower.[2] Prospective sponsors of new Northwest power plants have convinced the California Public Utilities Commission to investigate whether they should be permitted to

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[1]Bonneville Power Administration, Revised Draft: Long-Term Intertie Access Policy (December 15, 1987).

[2]See, e.g., In re Horseshoe Bend Hydroelectric Company, Project No. 5376-002, ___ FERC ___ (1987), at 9 ("We believe that our conclusion regarding the possible use of the Horseshoe Bend power [from Idaho] in California to displace non-renewable fossil fuels was reasonable"); FERC, Final Environmental Impact Statement, Salmon River Basin, Idaho, Vol. 2, at N-413 (July 1987) ("[B]y 1989, when the proposed projects are expected to be operational, if licensed, there will be additional capacity available in the transmission lines to California, . . . and the project power could be utilized in the short term to off-load resources in California").

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sell power on favorable terms to California utilities.[3] As for changes in operation of existing plants, the potential effects of Intertie development and use have prompted one of the Bonneville Power Administration's most extensive environmental impact statements, which is now scheduled for completion in April of 1987.[4] The Intertie is a federally owned resource; those who use it can hardly complain if the owner attaches terms and conditions that reflect the owner's environmental responsibilities.

2. Why are environmental safeguards needed in the Intertie Access Policy at all? Isn't the current regulatory system adequate?

Before responding in detail, one point should be emphasized: the environmental case for Intertie conditions does not rest on a lack of vigilance or competence on the part of the Federal Energy Regulatory Commission (FERC). Rather, the point is that FERC's and BPA's statutory mandates and environmental goals are quite different, and that -- absent remedial provisions in the Policy -- FERC regulation might not stop development that was inconsistent with BPA's statutory objectives.

Some contend, for example, that inappropriately sited hydropower will not be built for export, because FERC will deny licenses to project sponsors. Proponents of this view invoke the Electric Consumers Protection Act of 1986 (ECPA),[5] which requires FERC to give "equal consideration" to various environmental values when issuing licenses.[6] But this is hardly conclusive, since the statute directs FERC to give that same "equal consideration" to "power and development purposes." Over the past twenty years, we are aware of only one case in which

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[3]See California Public Utilities Commission, Order Instituting Investigation No. 85-11-008 (November 6, 1985). This proceeding is still pending before the California PUC, with a status conference set for February 11, 1988.

[4]See Bonneville Power Administration, Draft Environmental Impact Statement: Intertie Development and Use (October 1986).

[5]16 U.S.C. §§ 791a et seq.

[6]"In deciding whether to issue any license . . . , the Commission, in addition to the power and development purposes for which licenses are issued, shall give equal consideration to the purposes of energy conservation, the protection, mitigation of damage to, and enhancement of, fish and wildlife (including related spawning grounds and habitat), the protection of recreational opportunities, and the preservation of other aspects of environmental quality." 16 U.S.C. § 797(e).

environmental values prevailed over power and development concerns in a FERC licensing decision.[7]

In addition, ECPA directs FERC to "consider", in its licensing decisions, "[t]he extent to which the project is consistent with a comprehensive plan . . . that is prepared by an agency established pursuant to Federal law that has the authority to prepare such a plan."[8] Would the Northwest Power Planning Council's planning documents qualify? Not according to FERC Order 481, which requires "comprehensive plans" to "include a discussion of navigation, power development, energy conservation, fish and wildlife, recreational opportunities, irrigation, flood control, water supply, and other aspects of environmental quality."[9] Several of these issues are outside the Council's jurisdiction. The Council and the State of California have both protested FERC's interpretation, but until it changes the new "comprehensive plan" language will be meaningless in practice.

In sum, FERC regulation is no substitute for the unique BPA/Council commitment to double the Columbia Basin's devastated fish runs, in response to the mandate of the Pacific Northwest Electric Power Planning and Conservation Act. BPA has already committed at least $100 million to the effort, which has been called "the largest natural resource restoration effort ever mounted."[10] The Intertie should not become an incentive to build projects that undermine this investment.

3. Under the Policy, couldn't utilities be penalized for actions by developers over whom those utilities have no control?

Given the requirements of the Public Utility Regulatory Policies Act (PURPA), utilities are concerned that they might be

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[7]Attorney Thomas France of the National Wildlife Federation confirmed this conclusion in a February 3, 1988 telephone communication; the lone exception is In re Northern Lights, Project No. 2752, FERC Opinion No. 276 (June 25, 1987) (rejecting license for hydroelectric project at Montana's Kootenai Falls).

[8]16 U.S.C. § 803(a)(2)(A)(i).

[9]State of California, Application for Rehearing of Federal Energy Regulatory Commission Order No, 481, at 4 (Nov. 20, 1987) (citing 52 Fed. Reg. 39905, 39906 (1987).

[10]Nomination of the Northwest Power Planning Council for the Tyler Prize for Environmental Achievement, submitted by Senator Daniel J. Evans (October 1986). The dollar figure, which does not include foregone power sales revenues, reflects an estimate by Peter Paquet of the Northwest Power Planning Council staff, conveyed to NRDC in a telephone communication of January 18, 1988.

compelled to purchase power from independently developed hydro in sensitive areas. Note that this objection is flatly inconsistent with the one just discussed, which assumes that FERC would refuse to license such projects under ECPA.

We agree, nonetheless, that such projects might be licensed. But we have difficulty believing that anyone would build them, since -- as the proposed Policy points out, and as Washington UTC representatives have confirmed publicly[11] -- state utility commissions would apply a downward adjustment to PURPA's compulsory "avoided cost" payments, reflecting the loss of Intertie access. We are so confident that no project would survive that adjustment that we would concur in a Policy amendment that exempted any such survivors from Intertie penalties. In other words, we agree that a project built in response to price signals that exclude Intertie benefits should not incur Intertie-related penalties. We join the National Oceanic and Atmospheric Administration in doubting that such an amendment would ever be invoked,[12] but its adoption should remove concerns about involuntary losses of Intertie access.

4. Do the proposed fish and wildlife provisions jeopardize the security of long-term power sales to California?

California utilities are concerned that Northwest sellers might violate the Policy's fish and wildlife provisions at some future date, causing an unanticipated loss of power that the buyers were counting on to meet domestic requirements. The solution is to incorporate those provisions in the contracts themselves, coupled with commitments by the sellers to pay the additional costs of any replacement power that California is required to purchase as a result of a fish and wildlife violation. There is nothing ambiguous or speculative about the definition of "violations"; BPA's proposed bright-line rules put everyone clearly on notice as to what constitutes unacceptable behavior. Contractual safeguards should not be difficult for Northwest sellers to accept, since most stoutly disaffirm any intention to build hydropower in "Protected Areas" (except under the limited circumstances described below in item 7).

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[11]See Revised Draft Policy, note 1 above, at 12. The Washington UTC's views were delivered by Bethany Weidner at BPA's transcribed public meeting in Portland on January 20, 1988.

[12]See Letter from F. Lorraine Bodi, Staff Attorney, to Walt Pollock, BPA Power Manager, January 19, 1988.

5. Why should Bonneville extend the policy's protective provisions to cover rivers outside the Columbia River Basin, when the agency's direct investment is limited to the Basin itself?

From the perspective of damage to the Northwest's anadromous fishery, hydropower development outside the Columbia River Basin is potentially a larger problem than in-Basin construction. Of the pending Northwest hydro that menaces anadromous fish runs, more than two thirds of the 860 Megawatt total is outside the Basin (representing 92 of 156 projects).[13]

This creates a problem that is obvious to anyone who is familiar with the life cycle of Northwest salmon and steelhead. All the fish, whatever their rivers of origin, grow to maturity in the same ocean habitat and are subject to the same ocean fishing pressures. Hydropower-related reductions in out-of-Basin runs translate inexorably into increased fishing losses for in-Basin runs. Even for those who insist on a narrow economic perspective, BPA's interest in the Basin fishery cries out for preventing export-related hydropower development in out-of-Basin "Protected Areas."

Congress, of course, expects more from BPA than just this narrow economic perspective. The National Environmental Policy Act is an affirmative grant of authority to "'use all practicable means, consistent with other essential considerations of national policy', to avoid environmental degradation."[14] And the Pacific Northwest Electric Power Planning and Conservation Act involves BPA extensively in the "protection" and "enhancement" of "fish and wildlife and related spawning grounds and habitat"; that mandate encompasses the entire Pacific Northwest region, not just the Columbia River Basin.[15]

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[13]See Northwest Power Planning Council, Staff Issue Paper: Protected Areas Designation (October 8, 1987), Figures 2, 3, 5 & 6.

[14]Calvert Cliffs' Coordinating Council v. U.S. Atomic Energy Commission, 449 F.2d 1109, 1112 (D.C. Cir. 1971); see also Zabel v. Tabb, 430 F.2d 199 (5th Cir. 1970).

[15]See 16 U.S.C. § 839b(e)(2) (directing Northwest Power Planning Council to develop region-wide plan) & 839d(b)(1) (Administrator's acquisition of resources must be consistent with the plan).

6. Hasn't Bonneville inappropriately incorporated in the Intertie Access Policy a program under study but not yet adopted by the Northwest Power Planning Council?

The database used to designate "Protected Areas" is hardly the exclusive province of the Council; indeed, BPA itself funded and helped staff the effort. The Council's schedule precludes a final decision on Protected Areas by BPA's mid-April deadline for issuing the Policy. Under the circumstances, it is hardly unreasonable for BPA initially to frame its Policy by reference to environmental information that BPA collaborated in assembling. Once the Council has acted, BPA pledges to issue conforming Policy amendments, "subject to BPA review of Council changes."[16] This seems a reasonable exercise in cooperative federalism. The Policy's environmental safeguards undoubtedly will evolve over time, but no long-term transaction made in reliance on the initial rules will be affected by subsequent amendments.

7. Couldn't the proposed policy frustrate environmentally benign projects in stream reaches that have been mistakenly classified as "Protected Areas"?

The assumption here is that the database used in classifying "Protected Areas" may include some errors. This is certainly conceivable, notwithstanding the years of painstaking effort that went into the database. The remedy is to petition the Northwest Power Planning Council to correct the error. The Council has published straightforward amendment mechanisms for both its Energy Plan and its Fish and Wildlife Program, which appear at 51 Federal Register 23865 (1986) and 1987 Columbia River Basin Fish and Wildlife Program § 1300, respectively. As a not infrequent user of those mechanisms, NRDC can attest their efficacy.

[16]Revised Draft Policy, note 1 above, at 11.

Attachment: LT IAP-3-132

Natural Resources Defense Council

90 New Montgomery
San Francisco, CA 94105
415 777-0220

BPA'S LONG-TERM INTERTIE ACCESS POLICY

by Ralph Cavanagh

January 8, 1988

[The following is an excerpt from a December 1987 story in the Idaho Statesman:][1]

J.R. Simplot's vision of Idaho as an energy farm goes much further than suggested when he announced the formation of an energy export company in June. Simplot sees a Snake River strung with scores of plants fired by coal from Wyoming, sending electricity to the Southwest and producing steam for Idaho industry.

"You try to project this out for 50 years, and you got something so big you can't imagine," Simplot said. "(In) 50 years, we would have a hundred -- a hundred -- 1000 meg[awatt] plants in Idaho on this river."

I. Summary

This paper presents an environmental perspective on the revised draft of BPA's Long-Term Intertie Access Policy, released for public comment on December 15, 1987. As explained below, the policy includes four major improvements over earlier rules governing the use of the transmission system linking the Northwest and California: (1) Northwest utilities that make long-term commitments to California may no longer force the region's ratepayers, acting through BPA, to guarantee their transactions; (2) one-way long-term power transfers by Northwest entities other than BPA are limited to about 360 average megawatts, which realistically reflects current non-BPA surpluses; (3) some 440 MW of Intertie is reserved for seasonal capacity exchanges, which should reduce both regions' long-term need for new power plants; and (4) BPA has created the first clearly enforceable restrictions on the development of new hydropower for export in sensitive areas of the Columbia River Basin.

The policy falls short, however, in the following key respects: (1) it does not address fish and wildlife interests implicated by operation of existing power plants throughout the Northwest, and by construction of new dams outside the Columbia River Basin; (2) except for limited but important restrictions on some dam construction, it lacks guidelines for structuring long-term sales to avoid environmental damage; (3) the policy identifies no way for non-generating utilities to participate in Intertie commerce by investing in energy efficiency; and (4) the

[1]D. Popkey, Simplot Sees Snake Laden With Coal Plants, Idaho Statesman (December 19, 1987).

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policy misses a major opportunity to reduce environmental costs of coal-fired power exports to California.

II. Background

At its current capacity, the Pacific Intertie creates a 5200 Megawatt (MW) transmission pathway between California and the Pacific Northwest. The Bonneville Power Administration (BPA) owns almost 80% of this capacity. Proposed additions could expand the system to 7900 Megawatts by the early 1990s, and increase still further BPA's ownership share.

Transactions on this scale create huge economic stakes; every transfer of 1000 average megawatts (aMW) produces almost $90 million in annual income for every penny per kilowatt-hour that the seller can charge, and the typical year of the 1980s has recorded more than 3000 aMW of Intertie commerce. For California, of course, the equation works in reverse: every penny per kilowatt-hour saved on each 1000 aMW of Northwest imports represents an additional $87.6 million in the pockets of state ratepayers.

As the introductory quotation suggests, environmental stakes are also high for both regions. NRDC generally has supported expanded interregional power transfers subject to safeguards, the most important of which is that transfers should be sustained exclusively by existing generators. This makes both environmental and economic sense; these resources, supplemented by conservation investments, represent the cheapest and most reliable power supplies potentially available for sale. Existing Northwest surpluses and untapped conservation opportunities could form the basis for substantial long-term sales, in addition to the spot market transactions that dominate inter-regional commerce today.

On the other hand, expanded exports without safeguards open grim prospects like J.R. Simplot's fantasy or -- more likely -- the proliferation of dams on sensitive Northwest rivers. At least 350 Northwest hydropower applications are now pending before the Federal Energy Regulatory Commission, and their economic justification hinges on access to California markets.

By setting enduring rules for the use of interregional transmission, BPA's Long-Term Intertie Access Policy will strongly influence the resolution of all these issues. The sections that follow are an overview, from an environmental perspective, of opportunities seized and missed in the Policy's current draft.[2] Those who wish to influence the final policy

[2]Thus, the comments do not focus on the division of ratepayer benefits between California and Northwest utilities.

should lodge comments with BPA no later than 5 p.m. on February 19, 1988.[3]

III. The Good News

A. Cancelling the Regional Credit Card: In a December 1986 speech, BPA Administrator Jura described a dilemma that has troubled many of his constituents:

> These utilities [BPA's Northwest competitors for California markets] can offer their product with a fat insurance policy. They know they can fall back on Bonneville with their loads if they miscalculate and need additional power.[4]

The ability to draw on the region's credit when deals go bad is an invitation to negotiate imprudent power sales. The problem is an unintended outgrowth of the power sales contracts that BPA executed with all Northwest utilities back in 1981; the solution, which appears in § 4(b) of the proposed Policy, is to require utilities that make long-term sales over BPA's transmission system to waive any entitlement to BPA replacement power.

B. Restricting Long-Term Sales to Current Surpluses: The Policy includes a crucial common-sense safeguard that was missing from the earlier version: no utility can make long-term commitments to sell more surplus power than it now controls (§ 4(d)).[5] This places a 361 aMW cap on long-term transfers by entities other than BPA; coupled with the waiver described above, it reduces the risk that Northwest finances and environmental quality will be jeopardized by export contracts. A related limitation restricts Intertie access to utilities that currently possess marketable surpluses (thus, for example, the City of Klamath Falls could not attempt to recover costs of its proposed Salt Caves hydroelectric plant from California utilities). See §§ 1(15) & 4.

[3]An initial round of comments closes at 5 p.m. on February 5, 1988; the subsequent February 19 deadline allows for cross-comment. All submissions should go to Ms. Donna L. Geiger, Public Involvement Manager, Bonneville Power Administration, P.O. Box 12999, Portland, OR 97212.

[4]Remarks of Jim Jura before the Public Power Council, Portland, OR, at 3 (Dec. 3, 1986).

[5]The earlier draft would have allowed long-term sale of up to almost 3000 aMW of power from generators that currently are dedicated to service of Northwest loads, regardless of the impact on regional power plant construction requirements.

C. New Provision for Seasonal Capacity Exchanges: Many Northwest and California utilities want to execute long-term exchange contracts to take advantage of variations in regional power consumption patterns: the Northwest system peaks in the winter, while California's highest use occurs during the summer months. The new Policy dedicates up to 440 MW to such transactions (§§ 4(d)(1) & (d)(3)), which allow both regions to defer costly new capacity over the long term. BPA's previous position was that such cut into the agency's own revenues, and should be barred from the Intertie.

D. Limited but Enforceable Fish and Wildlife Protection: Interim rules governing the Intertie contain fish and wildlife safeguards that are broad in scope but largely unenforceable in practice. The new Policy would create a bright-line rule with limited reach but real teeth (§ 7). For any utility engaged in long- or short-term exports, construction of or power purchases from specified hydropower plants would result in automatic loss of equivalent megawattage of Intertie access. Plants in this category (up to 118 at this writing) include all units licensed after the Policy's effective date in "Protected Areas" of the Columbia River Basin, which initially would include more than 31,000 miles of undeveloped streams identified in a recent Northwest Power Planning Council report. These areas are distinguished by their current or potential importance to "anadromous or high value resident fish, or wildlife."[6] In the long run, much hinges here on the Council's willingness to endorse its staff's initial recommendations. Also, while the Council has identified numerous candidates for Protected Areas outside the Columbia River Basin, BPA does not propose to extend the Policy's protections outside the Basin itself.

IV. Toward a Better Long-Term Policy

A. Full-Service Fish and Wildlife Protection: Export-related fish and wildlife concerns encompass both new plants and the operation of existing units. BPA has addressed only the new plants, and even there the remedy is incomplete: thousands of stream miles outside the Columbia Basin are unprotected. BPA's rationale is that only Basin fish and wildlife benefit from its ratepayers' investments. But loss of out-of-Basin habitat inescapably translates into increased pressure on Basin resources. Moreover, there is no imperative to build any new hydropower at this time; there are ample and cheaper alternative resources for the Northwest to sell and for California to buy. No public interest is jeopardized by continuing BPA's current region-wide moratorium on new dams for export. Under the

[6]See Explanation of BPA's Revised Draft Long Term Intertie Access Policy, at 11 (December 15, 1987); Northwest Power Planning Council, Protected Areas Designation (Oct. 8, 1987).

circumstances, why not protect an important part of the Northwest environment that happens to lie outside the Columbia River Basin?

As for constraints on operation of existing hydro, BPA need not shoulder the burden of developing its own guidelines; it should simply adopt those of the Northwest Power Planning Council's Fish and Wildlife Program. The proposed Policy already incorporates operating limitations developed by other agencies, including the Western Systems Coordinating Council and the North American Electric Reliability Council (§ 3(c)); the Northwest Power Planning Council deserves at least equal standing.

B. Additional Environmental Guidelines for Long-Term Firm Sales: Before approving any long-term grant of Intertie access to any utility, Northwest or otherwise, BPA must comply with the National Environmental Policy Act (NEPA). The broad Environmental Impact Statement on the proposed Policy will not, of course, substitute for individualized environmental analysis of particular transactions; no such transaction is identified or evaluated in what is clearly intended as a generalized programmatic assessment. For transactions that could result in substantial environmental damage, access will have to await BPA's preparation of additional environmental impact statements.

For utilities that find this prospect burdensome, there is a straightforward solution: structure the transaction to rule out, in advance, the possibility of significant environmental impacts. The Policy would perform a valuable service for all concerned by specifying the preconditions for an agency finding of "no significant impact." BPA's own proposed power sale to Southern California Edison affords a useful precedent.[7] Illustrative "no impact" preconditions include precluding construction of new generators to support the sale, either by transforming the transaction automatically into a capacity exchange when the seller's energy surpluses disappear (the SCE model), or by using some combination of conservation investments, currently idle Southwest generators, and purchased interruption rights to ensure that the seller's power surpluses can be sustained over the term of the contract. Utilities that are unwilling to adopt such safeguards should be put on notice that their transactions must await completion and public review of an environmental impact statement.

C. Letting Conservation Compete for Intertie Sales: It is frustrating but entirely understandable that there is more interest among cities, utilities and entrepreneurs in new generators than in less expensive conservation, from an export perspective. Reward structures for new power production are much

[7]See Bonneville Power Administration, Environmental Assessment: Proposed Contract with Southern California Edison (May 1986).

better developed than their counterparts for conservation. The Policy threatens to make a bad situation even worse, since only utilities that operate or build power plants will be able to participate in Intertie transactions. Despite repeated urging from NRDC and others, the Policy creates no mechanism for non-generating utilities to export conservation-based surpluses.

D. Cleaning Up Coal-Fired Power Exports: In January of 1987, NRDC published exhaustive proof that (1) Northwest coal-fired plants play a central role in power sales to California and (2) current production schedules waste both money and environmental quality by operating relatively dirty and costly plants at times that cleaner and cheaper units are idle.[8] In particular:

> [W]hatever the complexities of environmental rankings for coal plants, the region has one clear loser: the two Centralia units. As [BPA] acknowledges, these plants dwarf all competitors in sulfur dioxide emissions, both absolutely and relatively, and have more human neighbors than any other Northwest units. [Moreover,] these units . . . are relatively expensive to run, and the less costly Colstrip plants have been underutilized. Cutting back on Centralia appears to be a money-saving proposition from the perspective of both the Northwest and California.[9]

Between 1982 and 1985, fourteen coal-fired generators accounted for two-thirds of the Northwest's power exports; Southwest markets absorbed more than nine-tenths of the plants' total production.[10] Under the circumstances, the region is entitled to expect Policy provisions that correct obvious environmental anomalies in plant scheduling. The region is still waiting.

CONCLUSION

The Intertie has been operated under various access policies, on an interim basis, since 1984. The latest version is the best, from an environmental perspective, and BPA can improve it significantly without depriving the Northwest and California of increased mutual benefits from interregional power transfers.

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[8]R. Watson, Burning Coal for Export: Environmental and Economic Dimensions of Northwest Intertie Sales to California (January 1987).

[9]NRDC Comments on BPA's Proposed Long Term Intertie Access Policy and Draft Environmental Impact Statement, at 9-10 (Jan. 15, 1987).

[10]Watson, note 8 above, at 1.

PGE Portland General Electric Company

R. E. Dyer Vice President

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LOG #: LTIAP-3-133
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February 5, 1988

Public Involvement Manager
Bonneville Power Administration
1002 NE Holladay St
Portland OR 97232

Portland General Electric Company (PGE) submits the enclosed comments in response to Bonneville's notice of opportunity to comment dated December 18, 1987.

Even though PGE chooses to take issue with some of the terms of the Policy, we support the review process of the Revised Draft Long-Term Intertie Access Policy. We have been pleased with the number and types of review and comment meetings. The tenor of the meetings has been marked with a willingness to listen and responsiveness to suggestions.

Thank you for the opportunity to comment.

Sincerely,

Enclosures

Attachment
LTIAP-3-133

Draft Long Term Intertie Access Policy

PGE Comment

PGE is primarily concerned with the language which places restrictions to Intertie access upon utilities which have contractual or ownership rights to transmission capacity to Southwest utilities. PGE finds the proposed language objectionable for the following reasons:

1. First, the proposed language effectively places restrictions on access to specific markets, rather than to Intertie capacity.

The use-your-own-first restriction, for example, could prevent a utility with its own AC capacity from selling to utilities which could be reached and have a desire for energy on the DC line.

There may be many reasons why an owner may be unable to completely fill its own portion of the AC and yet would be restricted from delivering energy over the DC. The energy may not be deliverable to or be desired by utilities connected to the AC line. In addition, utilities in California rate portions of their AC Intertie capability as "firm", with the residual amount being designated "nonfirm"; even if a Northwest utility is not fully utilizing its own AC Intertie capacity but wishes to transact business with a California utility whose firm AC capability is committed, the firm transaction will not take place, leaving the owner's AC capacity unfilled. The benefits for the two utilities and for the region would not be realized.

PGE suggests rewriting Section 3(d) to read: "Any utility that has contractual or ownership rights to transmission capacity to a Southwest utility must be fully utilizing its own transmission capability to complete the desired transaction with that utility prior to receiving access to BPA Intertie Capacity for the same transaction with that utility."

2. The restrictions to access ignore the lengthy period of partnership with PGE in which unused capacity has been shared.

Section 4(a) requires a utility with transmission access to Southwest utilities to utilize all such capability before being granted consideration for assured delivery. This provision does not recognize the allocation of unused Intertie rights which is being made by these other Intertie owners/contractees to BPA when their facilities are not fully utilized. Without a more equitable BPA policy, utilities with existing or future ownership will be disinclined to share their own surplus Intertie capability with BPA. PGE desires to continue sharing unused capacity with BPA as long as Bonneville's Policy allows it to do so.

3. The Policy gives non-owners more flexibility than owners.

The ability to shape energy into the fall months up to 1.8 times the level of Assured Access is not enjoyed by current owners. In addition, the restriction to market mentioned in 1. above is not placed on nonowners.

4. The restrictions to access to owners are unfair and discriminatory.

Section 6 of Federal Columbia River Transmission System Act [16 USC Section 838(d)] requires the Administrator to make available to all utilities on a fair and nondiscriminatory basis, any excess capacity. The provisions of the LTIAP must pass both tests: it must be both fair and nondiscriminatory. PGE has been excluded from participation by the provisions of 3(d), 4(a), and through absence from Exhibit B, the primary means by which utilities will be allowed to obtain Assured Delivery. While this alone discriminates against a particular utility, PGE finds the restrictions to be unfair as well.

PGE participated in the construction of the original two line system by constructing the 178 mile Grizzly-Malin 500 kV AC transmission line, installing one-third of the total required transmission line between John Day and Malin. As recognized by Bonneville in its report to Congress on the Intertie Plan (at page 27), PGE's doing so served two purposes: it recognized the interest of the region's investor-owned utilities in the Intertie Plan and allowed Bonneville to achieve its need for additional wheeling capacity at Bonneville's own cost. Moreover, PGE's incurrence of capital costs for the Grizzly to Malin segment relieved the United States of that potential expenditure. PGE contributed one-third of the direct capital costs of the facilities between John Day and Malin. The cooperation between Bonneville and PGE over the last twenty years with respect to the oeration, maintenance and use of each other's unused capacity in the lines has also benefitted Bonneville significantly .

Despite this record, Bonneville proposes in the Revised Draft Intertie Access Policy to place PGE in a position inferior to other Pacific Northwest utilities simply because PGE is now reaping reward for a significant investment and technical risk it took twenty-four years ago. Bonneville's proposal is unfair to its Intertie partner. Moreover, it is contrary to Bonneville's original commitment to Congress to provide "the public and private utilities of its service area access over Bonneville's lines to California, Nevada and Arizona markets, proportionate to the respective surpluses of the various utilites" (emphasis added) [Department of Interior, Report on Electric Intertie 27 (1964)].

A Policy which is offered to all Northwest Scheduling utilities, except two is not fair and nondiscriminatory. At the very minimum, the language which reduces PGE's rights below those of other utilites should be removed. To avoid the unfair and discriminatory treatment listed above, PGE suggests that section 4(a) be rewritten to read as follows:

> "Assured Delivery is intended for Scheduling Utilities to complete a firm transaction with a utility in the Southwest. A utility with transmission access to Southwest utilities, through contract or ownership, however, must utilize its own ability, if available, to deliver energy to complete the transaction before receiving Assured Delivery to that Southwest utility." The last sentence of the section should be deleted.

PGE further suggests that it should be included in the Exhibit B listing of surplus amounts in recognition of PGE's rights. The amount of average surplus listed in the PNUCC forecast for PGE is 258 MW, which is in addition to amounts of energy already commited to California. The Exhibit B should list PGE's average surplus. If PGE requests to use its 258 MW Assured Delivery, Bonneville at that time can consider whether or not PGE has used its own resources to deliver the transaction considered.

Since Bonneville is creating Allocations based upon today's surpluses and conditions, PGE feels that it is eligible for Assured Access at least in the amount of 258 MW, especially considering that PGE has to date only been able to schedule 700 MW of Intertie capacity.

On the subject of hydro relicensing, PGE supports the comments made by PNUCC. PGE would like to see BPA's involvlement in hydro relicensing channeled into a more appropriate vehicle than the Intertie Access Policy, such as the Electric Consumers Protection Act or decisions by FERC. The last sentence of Section 7(a) should be deleted entirely. The language is not only inappropriate to the LTIAP, but is vague, and carries the threat of inexplicit repercussions.

Lastly, PGE would like clarification on the provisions regarding joint ventures. As written, the policy does not state that Intertie transmission for joint ventures will be provided by Bonneville. It is unclear whether or not an owner will be required to use its own Intertie capacity for joint ventures. The attractiveness of joint ventures will be severely lessened if the transmission is subject to the terms of the Policy or if the utility is required to use its own transmission.

NEIL GOLDSCHMIDT
GOVERNOR



OFFICE OF THE GOVERNOR
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SALEM, OREGON 97310-1347

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C.C.: AL-15
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PJI

February 1, 1988

Mr. James Jura, Administrator
Bonneville Power Administration
PO Box 3621
Portland, OR 97208

Dear Mr. Jura:

I commend you for your efforts to design a balanced policy to guide the use of the Intertie. I fully support the goals of sharing the benefits fairly both within the region and between regions, protecting fish and wildlife, and preserving BPA revenues.

The current proposal comes a long way toward meeting those goals. Overall, I support BPA's proposed policy. However, I offer some recommendations that I think will distribute the trade benefits more fairly and will strengthen the fish provisions. Our detailed comments are attached.

I appreciate your efforts to meet the needs of divergent parties in this proposal. I will continue to help however I can.

Sincerely,

Neil Goldschmidt
Governor

NG:jf

LTIAP-3-134

OREGON COMMENTS ON THE BONNEVILLE PROPOSED

LONG-TERM INTERTIE ACCESS POLICY

Overall we support BPA's proposed policy. It is a significant step towards balancing BPA, utility, and state interests. However, we have specific recommendations on certain provisions to improve the policy.

1. Utility Access

We support the intent of the proposal that a utility must use its own intertie capabilities before it can have access to BPA's share of the Intertie. However, as written, this policy unduly discriminates against existing and potential new owners of intertie capacity. We recommend a compromise that recognizes the complexity of the market and the physical network of AC and DC lines. A utility should use its own intertie capacity first but with respect to each Southwest customer, not the entire Southwest market. This refinement would remove the penalty to utilities that have unused capacity because customers do not need power.

The AC and DC lines largely serve different buyers in California. An owner of AC line capacity may meet customer demand on that line without using up all its capacity. At the same time there may be unmet demands by DC customers. Under the proposed policy the AC owner would be barred from access to the DC line. This is discriminatory because utilities without AC ownership would have access to the DC. Accordingly, a refinement of the requirement seems reasonable.

2. Condition 1 Allocation

We recommend that all resources with a variable cost less than the BPA non-firm rate be used to allocate available capacity during Condition 1. The region has a coordinated hydro-thermal system. Allocating capacity based solely on hydro capability favors utilities with hydro resources. All cheap resources should be considered in determining allocations. Allocations based on resource cost is economic and equitable.

We believe this allocation scheme is workable and would not unduly hurt BPA revenues. Each utility could submit to BPA its list of candidate resources and their costs for BPA's review. The fish provisions would still be enforceable.

3. Modified Allocations under Conditions 2 and 3

Before considering competitive access once the third AC is built, BPA should hold formal hearings to determine the competitiveness of the California market.

4. Fish and Wildlife Protection

We support provisions to protect fish and wildlife. But, the scope should be expanded to insure consistency with both the Regional Power Planning Council's program for fish and wildlife and with state laws. Specifically, we recommend the following:

A. BPA's protected areas should be the same as those ultimately adopted by the Power Council. The Council is developing protected areas as part of its overall fish and wildlife program for the region. If the Council determines there are stretches outside the basin meriting protection from hydropower development because of the fishery and wildlife values, BPA should follow suit.

B. BPA's access penalty should also be applied to new hydro projects that do not comply with state laws. Oregon has enacted tough laws to protect its fish. They bar the building of new hydro projects that have a net negative impact on anadromous, or high value resident fish, or their habitat. We want to ensure that intertie access does not encourage development of hydro projects that harm any valuable fishery, not just those fisheries in the Columbia River Basin.

C. The fish provisions should apply to new hydro projects but not to existing dams. For existing dams the proposed penalty is extreme and does not reflect the cost imposed on the fish program. Problems at existing dams should be settled in the FERC arena.

D. BPA's access policy should discourage any unwanted hydro development. However, PURPA may require private utilities to buy output from projects even though they are built in protected areas. If the utility is then penalized, the costs may be unfairly borne by ratepayers or stockholders. We prefer a provision in the policy that discourages new PURPA projects that harm fish without penalizing the utility that is required to purchase PURPA output. If there is no way to achieve those ends, then private utilities that are forced to buy PURPA output should be exempted from the penalty.

It may be possible that this problem can be resolved through state utility commission adjustments of allowed contract prices to reflect the loss of export sales to the utility. But, there are three problems that may make this approach ineffective. First, the Oregon Public Utility Commission (OPUC) does not now consider opportunity sales in their avoided cost calculations. It may not be appropriate to adjust avoided costs due to lower opportunity sales that are a result of the penalty. And, it would probably be challenged in court. Second, these costs would be difficult to estimate. If the penalty is understated by OPUC, costs would be borne by ratepayers. Third, even if avoided costs are lowered, it may not be sufficient to deter the building of the project. If the project is built, the penalty will be applied. In this case, threats of penalties will make California utilities reluctant to sign long-term contracts.

However, if the penalty provision is retained, the OPUC will make its best efforts to adjust avoided costs to reflect the cost of the penalty to the utility.

2598K

PNUCC

PACIFIC NORTHWEST UTILITIES CONFERENCE COMMITTEE

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February 5, 1988

Donna Geiger
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

Dear Ms. Geiger:

Attached are PNUCC's comments on the draft revised Long-Term Intertie Access Policy. We have comments in two areas:

Attachment 1 provides general comments on the fish and wildlife provisions of the policy and specific revised language for Section 7.

Attachment 2 provides a review of BPA's Assured Delivery Analysis and a report of PNUCC's intertie activities of October 1986 through August 1987 which includes detailed information on PNUCC's economic analysis.

Thank you for this opportunity to comment.

Sincerely,

Al Wright
Executive Director

AW125

Attachments

LTIAP-3-135

ATTACHMENT 1

FISH & WILDLIFE PROVISIONS

General Comments

Specific Revised Language for Section 7

PNUCC'S FISH & WILDLIFE COMMENTS ON

BPA'S DRAFT LONG-TERM INTERTIE ACCESS POLICY

As PNUCC has stated previously, we do not support the inclusion of any fish and wildlife language in the LTIAP. The Northwest Power Planning Council's Fish and Wildlife Program provides measures that adequately compensate and mitigate impacts to fish and wildlife resources resulting from the construction and operation of the federal portion of the Columbia Basin hydroelectric system. FERC adequately regulates provisions for fish and wildlife mitigation for non-federal hydro projects. The Electric Consumers Protection Act (ECPA) now requires even more stringent fish and wildlife protection at the time of relicensing.

However, it appears that BPA intends to include fish and wildlife protective measures in the LTIAP regardless of substantial opposition. Should BPA conclude that it cannot achieve acceptance of the LTIAP by all the interested agencies without some fish and wildlife provisions, we offer the following suggestions for BPA actions. That issue is development of <u>new</u> hydroelectric sites that impact fish and wildlife and which are developed exclusively due to the intertie to Southwest markets. Some PNUCC members question BPA's authority to adopt a program such as that proposed in Section 7 of the revised draft. However, to the extent BPA has authority, BPA should adopt the following:

1. BPA will not allow intertie access for new hydroelectric site development that BPA determines (1) adversely impact its investment in fish and wildlife protection, mitigation and enhancement measures required under Section 4(h) of the Regional Act; (2) adversely impact other BPA fish and wildlife responsibility; or (3) impairs BPA's ability to comply with provisions of the Council's Fish and Wildlife Program developed under the Regional Act (including provisions regarding Protected Areas, if and when the Council adopts such into its Fish and Wildlife Program).

2. BPA will provide written notice to FERC and the project developer at the time of a preliminary permit or license application, or as soon thereafter as possible, of its fish and wildlife concerns if BPA determines that impacts described in (1.) will occur. In addition, BPA will use all the provisions available to it to ensure that power sales via the intertie are not used to justify or enhance FERC approval of the project development as demonstrated by the need for power analysis in the license application.

3. BPA will impose the following restrictions on any new hydroelectric site development that occurs which BPA has determined to have impacts listed in (1.). BPA:

    a. will not increase or approve a contract for that utility's new assured delivery capacity by the project's nameplate rating or the amount of power acquired from a project; and

b. will not increase that utility's calculated hydro cap or other declaration processes BPA may adopt by the nameplate rating of the new hydro site development; and

c. will reduce that utility's allocated access for non-firm energy by the average energy rating of the new hydro site development any time non-firm energy allocation is requested and that project is operating, regardless of the specific load that project is assigned to meet. In the case of non-ownership, when a utility acquires power from such a project, BPA will reduce that utility's non-firm energy by the amount of power acquired.

4. BPA will rely on the provisions of the Electric Consumers Protection Act for relicensing or modifications of existing hydro projects and its ability to intervene in such processes at the time of relicensing in order to seek protection from or mitigation of impacts as described in 1., above.

5. BPA will not penalize or restrict any utility that is required to accept a new hydro site development or the generation from such project through actions other than voluntary. BPA can and should require such utility to demonstrate good faith efforts during the regulatory processes to convince the regulating agency that avoided costs calculations must not include any consideration of intertie access.

While we have recommended that BPA address its concerns within the FERC process, we strongly believe that it is not necessary that BPA monitor or intervene in every licensing procedure within the Columbia River Basin. BPA need only be concerned with development in those areas of the basin where BPA has or will make expenditures or where BPA's actions under the Council's Fish and Wildlife Program could be directly impacted. Our intent is that BPA be extremely circumspect in the application of the fish and wildlife provisions that it adopts and that BPA restrict its involvement to these specific areas.

PNUCC'S PROPOSED LANGUAGE FOR SECTION 7

Section 7. Fish and Wildlife Protection

(a) Purpose. The development of future hydroelectric site development may substantially decrease the effectiveness of, or substantially increase the need for, expenditures and other actions by BPA, under Northwest Power Act section 4(h), to protect, mitigate, or enhance fish and wildlife resources of the Columbia Basin. BPA intends to oppose the construction of hydroelectric projects that, unmitigated, will increase BPA's expenditures or decrease the effectiveness of its implementation of the Northwest Power Act section 4(h). BPA will develop criteria by which it will evaluate impacts to its expenditures and responsibilities. Specifically, BPA intends to prevent the use of the intertie as a justification for the development of such hydroelectric resources. BPA will inform the Federal Energy Regulatory Commission (FERC) of its concerns at the time a project preliminary permit or license application is made.

This section does not apply to existing hydroelectric projects or modifications thereto. BPA will rely on the decisions made by the FERC under the Electric Consumers Protection Act on modifications to, or relicensing of, existing hydroelectric projects, although BPA will intervene should mitigation proposals fail to adequately address impacts to BPA's expenditures or other requirements under Section 4(h).

(b) Implementation.

(1) Intertie Access will not be provided to facilitate the transmission of power generated by any new hydroelectric site development where such project:

(A) will adversely impact BPA investments under section 4(h) of the Northwest Power Act; or

(B) will adversely impact other BPA fish and wildlife responsibilities; or

(C) impairs BPA's ability to comply with provisions of the Council's Fish and Wildlife Program developed under section 4(h) of the Northwest Power Act.

(2) These restrictions will apply only to projects licensed after the effective date of this policy.

(c) Enforcement.

(1) If a scheduling utility or a nonscheduling utility owns, or voluntarily acquires, the output from a hydroelectric site development which BPA has determined is covered under the restrictions of section 7(b), BPA:

(A) will not increase or approve a contract for that utility's new assured delivery capacity by the project's nameplate rating or the amount of power acquired from a project; or

(B) will not increase that utility's calculated hydro cap or other declaration processes BPA may adopt by the nameplate rating of the hydro site development; or

(C) will reduce that utility's allocated access for non-firm energy by the average energy rating of the new hydroelectric site development any time non-firm energy allocation is requested and that project is operating, regardless of the specific load that project is assigned to meet. In the case of non-ownership of a new hydroelectric site where a utility acquires power from such a project, BPA will reduce that utility's non-firm energy by the amount of power acquired.

(2) This section shall not apply to any utility to the extent it is required to accept a project covered under the restrictions of section 7(b), or the generation from such project, through actions other than voluntary.

(3) This section shall not apply unless BPA has provided written notice to FERC and the project proponent, at the time of preliminary permit or license application or a reasonable time thereafter, that the proposed project is one that BPA believes will be subject to the restrictions of section 7(b). BPA will also demonstrate that it has used all provisions available to it to ensure that power sales via the intertie were not used to justify or enhance FERC approval of a proposed project.

ATTACHMENT 2

PNUCC Review of BPA'S Assured Delivery Analysis

PNUCC Intertie Activities

LTIAP-3-135

ATTACHMENT 2

PNUCC Review of BPA Assured Delivery Analysis

On January 5, 1988, BPA distributed the results of their studies that attempted to quantify BPA revenue impacts of providing 800 MW of assured delivery available on the Pacific Northwest-Pacific Southwest Intertie. This access for assured delivery as described in the December 15, 1987 revised draft of the Bonneville Intertie Access Policy would allow for both firm one-way power sales as well as seasonal power exchanges.

Members of PNUCC's Intertie Access Policy Work Group requested that the PNUCC staff review the analysis. The main purposes of the review were:

1. to compare results (where possible) to PNUCC July 1987 analysis;
2. to identify major concepts included in the analysis; and
3. to review BPA's calculations.

The following information, which summarizes the results of our review, was presented at a public meeting held by BPA on January 27, 1988 in Portland.

As shown on page 2 of the information, BPA evaluated four alternatives, each with two variations. PNUCC focused its review on the alternative that was the closest to cases studied by PNUCC in July 1987. The studies that were compared are highlighted with boxes on page 2. For the BPA alternatives, it was the 695 MW (350 MWa) seasonal exchange, assuming a displaced capacity sale in the Southwest of 30 percent of the total 800 MW, and no accounting for any mitigation. This alternative was compared to the PNUCC cases I and II where seasonal exchanges were allowed by BPA, and there was assumed to be some impact to Bonneville's power marketing program in both the Northwest and the Southwest. It should be noted that the BPA analysis of potential impacts of a firm one-way sale were not reviewed. This was because in the PNUCC July analysis, the one-way firm power sales were not analyzed.

In order to better understand the difference in the BPA and PNUCC analyses, a summary of the key assumptions used is shown on page 3. This is not an exhaustive list of assumptions, but rather a listing of the key differences. For example, in the PNUCC analysis, only one year (1988-89) was analyzed. Whereas in the BPA analysis, 18 years starting in 1989 were studied.

The various concepts considered in the seasonal exchange analysis are identified on page 4. These concepts reflect both direct and indirect effects. An example of a direct effect is the reduction of the net intertie due to the seasonal exchange. In the summer months during some water conditions, this will reduce the amount of non-firm energy sales that Bonneville can make to the Southwest. This is shown on page 4 as item 1a. An example of an indirect effect is the potential impact on Bonneville's ability to make long-term firm capacity sale to the Southwest. The assumption is that Bonneville's ability to make firm capacity sales to the Southwest will be reduced because of a seasonal exchange. This concept is listed on page 4 as item 3b.

The information on page 5 compares the results of PNUCC's cases I and II with the BPA alternatives described above. BPA performed its analysis for 18 years and computed the impacts in terms of a net present value (NET PV). These net present values were converted to annual levelized impacts and shown in the column labeled "level." Values are shown for each case only for the concepts that were assumed. For example, in the PNUCC analysis no estimate was made of the impact due to a change in the SW non-firm market (line 1b). However, BPA did include this concept in their analysis.

The key point to be gained from the information on page 5, is that the total estimated impact on Bonneville is the summation of a number of concepts. For instance, the total revenue impact is dependent on one's assumption on the changes in both Northwest and Southwest market condition. The figures on page 5 assist in quantifying the impact associated with various assumptions. No attempt has been made to estimate the likelihood of any of these conditions actually occurring.

PNUCC Review of

BPA Assured Delivery Analysis

Purposes.

1. Compare results (where possible) to PNUCC July 1987 Analysis

2. Identify major concepts included in Analysis

3. Review BPA calculations

BPA Assured Delivery Analysis (1/4/88)

	Alternative			
	1	1a	2	2a
Firm Power Sale (MW)	105	105	360	360
Seasonal Exchange				
Capacity (MW)	695	695	440	440
Energy (MWa)	350	695	220	440
Displaced Capacity Sales	30% / 70%	30% / 70%	30% / 70%	30% / 70%
Mitigation	Yes / No	Yes / No	Yes / No	Yes / No

PNUCC Seasonal Exchange Analysis (July 1987)

	Seasonal Exchange Allowed		Seasonal Exchange Not Allowed Alternate Route Developed	
	I	II	III	IV
Seasonal Exchange				
Capacity (MW)	800	800	800	800
Energy (MWa)	320	320	320	320
Displaced Capacity Sales	--	50%	--	50%

Key Assumptions Used in PNUCC and BPA Anlayses

		PNUCC (All Cases)	BPA (Alternative 1)
1.	Time Frame	1 yr (1988-1989)	18 yrs (1989-2006)
2.	Firm Power Sale (MW)	---	105
3.	Seasonal Exchange		
	a. Months	4	5
	b. Capacity (MW)	800	695
	c. Energy (MWa)	320	350
4.	Intertie Upgrades Included	DC Upgrade	DC Upgrade and 3rd AC
5.	Non-firm Energy Rates (mills/kWh)		
	a. Summer	20	Supply/Demand Curves
	b. Winter	15	Supply/Demand Curves
6.	Firm Capacity Rate ($/kW-month)	4.71	3.46
7.	Firm NW Energy Rate (mills/kWh)		
	a. Summer	15	18.4
	b. Winter	19	18.4
8.	Firm SW Energy Rate (mills/kWh)	24.4	18.4

Impacts on BPA Revenues
Concepts Considered in Seasonal Exchange Analyses

		Net Effect
1.	**BPA Summer Non-firm Sales to SW**	
	a. Change in Available Intertie	Loss
	b. Change in SW Market	Loss
2.	**BPA Winter Non-firm Sales to SW**	
	a. Counter Scheduling	Gain
	b. Change in SW Market	Gain
3.	**BPA Firm Capacity Sales**	
	a. to NW (Winter)	Loss
	b. to SW (Summer)	Loss
4.	**BPA Firm Energy Sale**	
	a. to NW (Winter)	Loss
	b. to NW (Summer)	Gain
	c. to SW (Summer)	Loss
	d. to SW (Non-summer)	Loss
5.	**BPA Wheeling**	
	a. Summer	Gain
	b. Winter	Gain

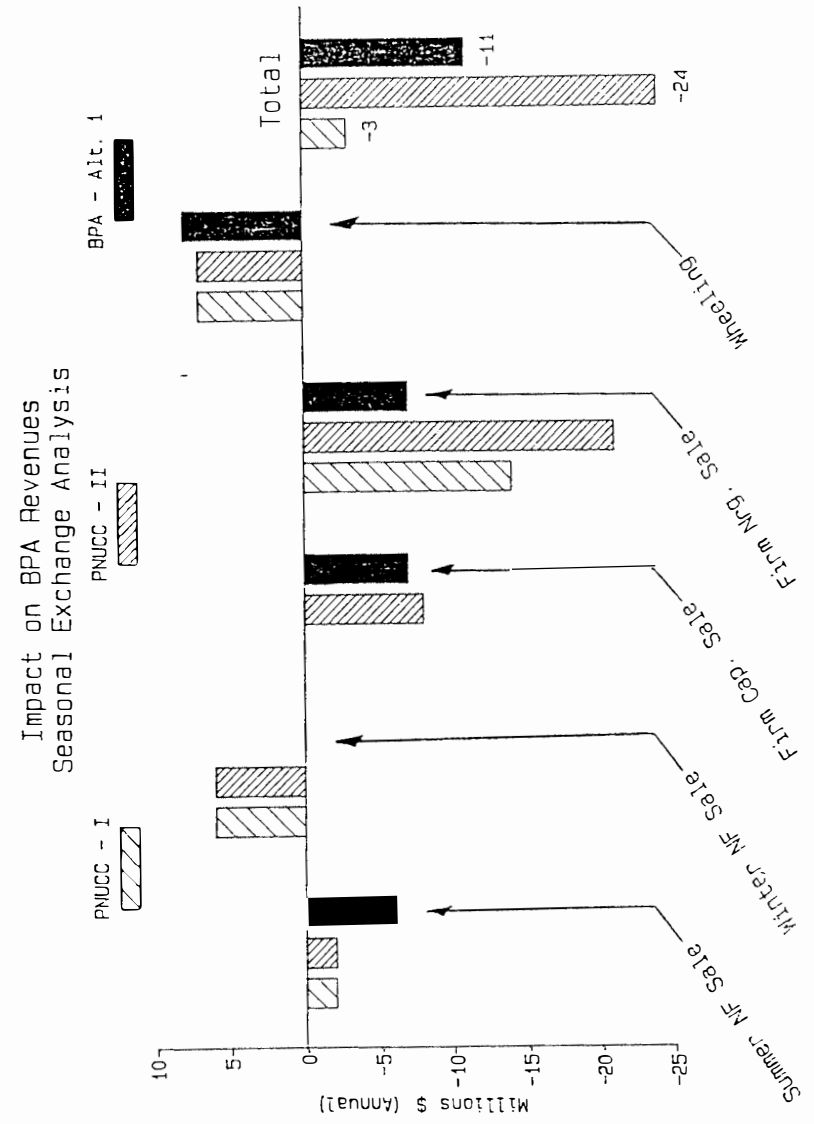
Summary of Concepts Considered
Seasonal Exchange Analyses
(Millions of 1987 $)

		Net Effect	PNUCC I	PNUCC II	BPA Alternative 1 Level	BPA Alternative 1 NET PV
1.	**BPA Summer Non-firm Sale**					
	a. Change in Avail. Intertie	Loss	-2	-2	-3	-40
	b. Change in SW Market	Loss			-3	-41
2.	**BPA Winter Non-firm Sales**					
	a. Counter Scheduling	Gain	6	6	0	0
	b. Change in SW Market	Gain				
3.	**BPA Firm Capacity Sales**					
	a. to NW (Winter)	Loss			-3	-43
	b. to SW (Summer)[1]	Loss		-8	-4	-49
4.	**BPA Firm Energy Sale**					
	a. to NW (Winter)[2]	Loss	-19	-19	-7	-90
	b. to NW (Summer)[3]	Gain	5	5		
	c. to SW (Summer)	Loss		-4		
	d. to SW (Non-Summer)	Loss		-9		
5.	**BPA Wheeling**	Gain	7	7	8	106
	Total		-3	-24	-11	-157

1 PNUCC: 4 months @ 400 MW @ $4.71/kW-month
BPA: 5 months @ 240 MW @ $3.46/kW-month

2 PNUCC: 4 months @ 320 MWa @ PF
BPA: 5 months @ 104 MWa @ PF

3 PNUCC: 4 months @ 96 MWa (Public Only) @ PF



Attachment;
LT IAP-3-135

D R A F T

PNUCC INTERTIE ACTIVITIES

October 1986 - August 1987

Vol 1

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NOTE

This document is a draft report summarizing all of PNUCC's 1986-87 activities related to formulation of BPA's proposed Long Term Intertie Access Policy. With this report, we hope to provide the PNUCC membership with 1) an exhaustive chronology of all events related to the proposed policy, 2) a detailed description of informational and technical services rendered by PNUCC staff, and 3) a comprehensive digest of key Intertie-related documents.

1.0 Chronology

1.1 Overview

This section is a brief and informal retrospective of key Intertie issues and events in the October 1986 - August 1987 timeframe. The object here is to briefly hit the highlights of all PNUCC sponsored activities and the highlights of any other limited-participation Intertie meetings.

In the case of most PNUCC meetings, no records or minutes were kept. In the case of BPA meetings, minutes were often kept, and are included or identified in Volume II.

Section 1.2 contains an exhaustive chronology of all major intertie-related events within the timeframe of this report.

The early involvement of PNUCC in the Intertie Access Policies and accompanying NEPA processes was primarily limited the Fish and Wildlife aspects of the policies and NEPA analysis. This was mainly due to the differences in positions of the various BPA customer groups on power related aspects of the policies.

However, by early 1987, it became evident that numerous concerns and needs of various customer groups for intertie access were not clearly understood by other customer groups, nor was there an understanding of the impacts associated with the various proposals for use of the intertie.

Therefore, PNUCC was selected as an impartial entity to perform the technical analysis of the power and revenue impacts of various intertie use scenarios. This analysis was to be performed under the guidance and scrutiny of a multi-customer group task force to ensure production of impartial results that could be relied upon by all involved parties. In addition, these results could be used as a crosscheck against BPA's internal analysis and provide a foundation for discussions by all customer groups with BPA on potential intertie use.

The following report presents the result of PNUCC analysis as of September 1987, and a summary of the findings to date. It is intended to provide PNUCC's members a basis for continued discussions with BPA and to provide a better understanding of the inter-relationship of power and revenue impacts of intertie use scenarios.

In addition, it is a complete compilation of the important intertie activities and materials and can serve as a valuable reference document in the future.

1.2 Timetable of Key Events:

October, 1986

October 22: BPA issues draft LTIAP and requests comments

November, 1986

November 18: PNUCC IAP Task Force meeting

Agenda:
a. Develop an outline for IDU EIS comments

November 19: 1st BPA meeting on technical discussion of policy

November 20: 2nd BPA meeting on technical discussion of policy

December, 1986

December 5: PNUCC IAP/EIS Task Force

Agenda:
a. Development of PNUCC's comments on IAP and IDU EIS

December 9 - 11: BPA public meetings on IAP and IDU EIS

January, 1987

January 5: Congressman George Miller speaks to the Edison Elec. Inst. Gov. Aff.

January 9: PNUCC IAP Work Group

Agenda:
a. Review of draft comments on IDU EIS

January 26: (Extended) Close-of-comment on LTIAP

March, 1987

March 31: PNUCC Board of Directors forms IAP Work Group

April, 1987

April 8: 1st PNUCC IAP Work Group Meeting

Agenda:
a. Development of questions for BPA
b. BPA presentation on IAP
c. Discussion of PNUCC members' position and concerns on IAP

April 14: PNUCC Staff / Intertie history forum at PNUCC offices

Agenda:
a. Pre-IAP Intertie Use (1968- 1984)
b. Near term intertie access policy
c. Proposed long term intertie access policy

May, 1987

May 1: PNUCC IAP Work Group Meeting

Agenda:
a. Discussion of PNUCC member's positions and concerns before the Miller Hearings
b. Development of List of Witnesses
c. Scheduling meeting with Jura/BPA

May 7: Miller Hearings

June, 1987

June 5: BPA/Jura Select Customer Group IAP Meeting

June 16: PNUCC IAP Work Group Meeting

Agenda:
a. Discussion of present activities
b. Discussion of work group goals and objectives
c. Existing and future intertie capacity and availability
d. Existing and future surplus power export potential
e. Scheduling additional meetings

June 22: Congressman Dingell requests information on IAP

July, 1987

July 10: 2nd PNUCC IAP Work Group meeting covering seasonal exchanges

July 14: PNUCC Staff meeting with Les Bryan

July 15: BPA/Jura Select Customer Group IAP Meeting

Agenda:
a. Uses and potential uses of the intertie
b. Relationship of BPA's power marketing program to intertie access
c. Exchanges
d. Hourly allocation of intertie capacity under condition 1

July 22: BPA/Jura Select Customer Group IAP Meeting

Agenda:
a. Treatment of sec. 9(i)(3) resources
b. Access for new resources
c. Commitment to load, sec 9(c)
d. Nondiscriminatory access to non-federal intertie owners
e. Fish and wildlife protection
f. Process for 3rd AC participation

August, 1987

August 4: DC upgrade hung in 9th Circuit

August 17: PNUCC Staff meeting with Ray Foleen

August 18: BPA/Jura California Utilities Rep. IAP Meeting

NOTE

Agenda items were listed simply as an expedient in this draft report. Later editions will contain summaries or synopses in place of the agenda listings.

2.0 PNUCC Board Actions

This section briefly discusses the formal actions of the PNUCC Board of Directors relative to this past years' Intertie issues. In short, the Board directed preparation of comments on the proposed LTIAP during the official comment period and approved those comments. Later, in consideration of the gravity of the impending Miller hearings, the Board spun off the Intertie Access Policy Work Group.

Based on the Work Group's success relative to both the Miller Hearings and BPA's extended LTIAP process, the Board later extended the Work Group's mandate to deal with all Third AC issues.

3.0 PNUCC Intertie Access Policy Work Group Activities

In March of 1987, the Board of Directors of PNUCC determined that a review group of industry experts should be set up to provide direction and oversight to the staff's analysis and see that PNUCC's involvement in the rapidly changing environment surrounding the intertie development was on target. The Intertie Access Policy Work Group met five times from March, 1987 to September 1987 and provided valuable assistance and direcction to the PNUCC activities.

The key participants in the Work Group are:

Joe Breazeal	ALCOA
Don Clayhold	Benton County PUD
Gene Lubking	Chelan County PUD
Sonny Smart	Chelan County PUD
Phil Jackson	Clallan County PUD
Jack Canavan	Columbia Falls Aluminum
Al Benedetti	Consultant
Bob McKinney	Cowlitz County PUD
Leon Smith	Cowlitz County PUD
Bud Krogh	Culp, Dwyer, Guterson & Grader
Hec Durocher	Direct Service Industries
Eldon Landin	Douglas County PUD
Jim Piska	Douglas County PUD
Jean Reeder	Eugene Water and Electric Board
Garry Kunkel	Eugene Water and Electric Board
Harold Beckemeier	Grant County PUD
Don Long	Grant County PUD
Bob O'Connor	Idaho Power Company
Tom Spofford	Idaho Power Company
Joe Marshall	Idaho Power Company
Noel Shelton	Intalco Aluminum
Merrill Schultz	Intercompany Pool
Alan Jones	McMinnville Water & Light
John Bracher	Kaiser Aluminum
Dennis Rohr	Mid-Columbia PUDs
Bob Miller	Montana Power Company
Bob Labrie	Montana Power Company
Ray Foleen	Nongenerating Public Utilities
Dave Piper	Pacific NW Generating Co.
Joe Nadal	Pacific NW Generating Co.
Rod Boucher	Pacific Power & Light
Floyd Hammerquist	Pacific Power & Light
Bob Moench	Pacific Power & Light
Colin Persichetti	Pacific Power & Light
Dick Dyer	Portland General Electric
Larry Kellerman	Portland General Electric
Bill Kirby	Portland General Electric

Dan Ogden	Public Power Council
Lon Peters	Public Power Council
Ron Bailey	Puget Sound Power & Light
Bill Caines	Puget Sound Power & Light
Bob Myers	Puget Sound Power & Light
Wayman Robinett	Puget Sound Power & Light
Jim Stromberg	Reynolds Metals Company
Jerry Garman	Seattle City Light
Randy Hardy	Seattle City Light
Don Caha	City of Tacoma
Mark Crisson	City of Tacoma
Dwayne Simons	City of Tacoma
Steve Johnson	Washington PUD Association
Les Bryan	Washington Water Power
Paul Redmond	Washington Water Power

4.0 PNUCC Ad Hoc Work Group Activities

In addition to "formal" informational activities, such as Board of Director and Intertie Access Policy Work Group presentations, PNUCC staff attempted to meet informational needs of individual members and small groups of members. Following the April 8, 1987 meeting of the Intertie Access Policy Work Group, a few members approached PNUCC staff regarding the availability of additional information.

In response, PNUCC staff members immediately developed a very rough presentation of 1) historic Intertie use, and 2) major alternatives to BPA's proposed Long Term Intertie Access Policy. Historic data focused both on use of the Intertie for firm transactions including CSPE, Central Valley Project and BPA's own 20-year peak energy exchange agreements.

With regard to policy alternatives, staff and attendees spent roughly an hour reviewing both the Intercompany Pool's Proposed Alternative Intertie Access Policy and Seattle City Light's extensive item-by-item alternatives that were provided to BPA as official comments.

This meeting, held in PNUCC's offices on April 14, 1987 was designed to assist members seeking to "catch up" on relevant Intertie issues. PNUCC staff are available to provide similar forums upon request.

In addition to the April 14 meeting, PNUCC staff met with Les Bryan in July and with Ray Foleen in August to attempt to clarify PNUCC studies, provide background information, etc. The Executive Director also responded to various requests from members for on-location briefings.

5.0 PNUCC Staff Activities

This section discusses various Intertie technical and informational services provided by the PNUCC Executive Director and staff. As discussed above, PNUCC staff initially prepared and submitted comments on the proposed LTIAP at the direction of the Board of Directors in early 1987. At the end of March 1987, the Board formed the Intertie Access Policy Work Group and charged PNUCC staff with the job of hosting informational forums and providing technical support.

The first section of this chapter is a broad summary of PNUCC's modelling and analysis of seasonal exchanges. This project was undertaken as a result of requests made at the June 1987 Intertie Access Policy Work Group meeting in Seattle. The assertion made at the June meeting that inspired the study was a comment to the effect that, ignoring impacts on BPA's vague Power Marketing Program, allowance of the 600 MW of proposed seasonal exchanges would produce only a few million dollars of harm to BPA revenues per year. The PNUCC seasonal exchange model (described in detail in following sections) treats this assertion as "Case I".

The PNUCC staff presentation of study results on July 10 generated many questions regarding details of the analysis. Several of the following sections of this draft report comprise a "first try" at covering the full range of questions asked to date. Some answers may lack sufficient depth at this point, but hopefully this draft review will help members guide future work.

The second section of this report is a very brief summary of other staff services that PNUCC provided relative to Intertie issues. Other work was smaller in scope than the seasonal exchange studies, but served member interests in particular situations.

5.1 PNUCC Seasonal Exchange Study

5.1.1 Overview and Summary

This section is an overview of PNUCC's seasonal exchange model, including a discussion of its reason for being. This section also summarizes model results that were presented at the July 10, 1987 meeting of the Intertie Access Policy Work Group.

Some additional results generated by the seasonal exchange model are also presented. These results are entirely drawn from studies performed prior to the July 10 presentation. Additional material included here is presented only for clarification and in direct response to member requests.

5.1.2 Study Origin and Objectives

PNUCC's technical analyses of seasonal exchanges were performed at the request of the Intertie Access Policy Work Group. The June 16th meeting of the Work Group focused primarily on the Assured Delivery provisions of BPA's proposed Long Term Intertie Access Policy. A number of generating utilities argued against assured delivery provisions that specifically prevent seasonal exchanges, asserting that "even a rough, back of the envelope calculation would show that tolerance of exchanges would cost only a few million dollars per year". In response, the Work Group requested that PNUCC staff perform such a calculation, and suggested that a smaller work group of technical experts from the membership should be formed and consulted.

On July 6, PNUCC hosted an all-comers technical advisory group meeting in its Portland offices. Staff presented a "very rough, back of the envelope" calculation and received substantive criticism on several points. One major shortcoming of the first analysis was a failure to account for all factors leading to the very high impacts to BPA revenues that had been quoted by BPA staff. Another (offsetting) shortcoming of the first analysis was a failure to account for severe impacts to BPA revenues that might occur if seasonal exchanges were not allowed. In addition, the work group agreed on several "ranges" to use for variables whose "true" values were not known. Assumptions of this type were made in several areas including prices, probabilities of secondary energy production during summer months, and characteristics of the exchange contracts themselves.

Between July 6 and July 9, PNUCC staff created an entirely new model of the revenue impacts that BPA would sustain depending upon allowance or disallowance of seasonal exchanges. Results of the second model were presented to the full Intertie Access Policy Work Group at its July 10 meeting. Although somewhat more sophisticated than the first model, the second model remains faithfully within its "very rough, back of the envelope" design criterion.

5.1.3 Explanation of Cases

The PNUCC seasonal exchange model computes BPA revenues for five distinct cases. Case "0", sometimes referred to as the BPA maximum revenue case, was presented on July 10 for two reasons. First, this case is the closest match to base case used by BPA in its own analyses. Second, staff simply couldn't find a means to develop an understandable presentation without selecting some case as a reference point.

Technical experts among the PNUCC membership argued before and after the July 10 presentation that Case 0 is the least realistic of the five cases studied because it hinges on the concept that BPA has complete control of Northwest generators; that no options are available other than those offered by BPA. Although, this concern must be considered in evaluation of PNUCC materials, it has no bearing on the validity of the model.

Briefly, Cases I, II, III and IV all assume that seasonal exchanges between the Northwest and Southwest occur. In Cases I and II, the exchanges occur with BPA's consent and use BPA facilities. In cases III and IV, the exchanges occur <u>despite BPA's denial,</u> using nonfederal facilities. Only Case 0 assumes that BPA can prevent the occurence of seasonal exchanges by denying assured delivery.

The following paragraphs describe the logical characteristics of each of the five PNUCC cases:

Case 0, The Base Case- In Case 0, BPA denies seasonal exchanges and eliminates both Northwest and Southwest utilities' opportunities to engage in seasonal exchanges. Northwest utilities that would have met a winter season need through seasonal exchanges meet that need by purchasing firm power from BPA. Similarly, Southwest utilities that would meet a summer season need through seasonal exchanges are forced to meet that need through firm purchases from BPA.

Case I- Case I shows minimal harm to BPA revenues. Case I assumes that BPA modifies the proposed LTIAP to permit seasonal exchanges and that seasonal exchanges simply don't interfere with BPA's current or contemplated Southwest transactions. In all cases, it is assumed that BPA has reserved 4,000 MW of Intertie capacity for its own use. The concept of Case I is that the BPA reservation is sufficient to meet federal needs and that no transactions over the remaining 1,000 MW increment can affect BPA's marketing opportunities. In addition, BPA earns wheeling revenues from transmitting seasonal exchange power.

Case II- Case II results exactly match BPA's own estimates of harm to BPA revenues that might occur if the proposed LTIAP enables seasonal exchanges. Case II is similar to Case I in that it assumes modifications to the proposed LTIAP that permit seasonal exchanges. Case II differs from Case I in that it assumes major interference with BPA's marketing opportunities on several fronts: nonfederal seasonal exchanges displace seasonal exchanges that BPA would make, nonfederal seasonal exchanges

block BPA firm sales outside of summer months because firm energy will only sell outside of the summer season if it is "bundled" with summer capacity, etc.

Case III- Case III (and Case IV) assumes that BPA denies seasonal exchanges, but that Northwest generating utilities acquire access to Southwest (and perhaps Canadian) trading partners via nonfederal facilities. Like Case I, Case III assumes that seasonal exchanges don't interfere with BPA's marketing opportunities. BPA does, however, forego wheeling revenue and loses some <u>current (existing)</u> Northwest markets. The alternate-route scenarios, Cases III and IV, both assume that having acquired nonfederal, extraregional access, Northwest utilities will use that access to maximum advantage. The utilities will, at the minimum, displace some secondary purchases from BPA with cheaper supplies from outside of the Northwest.

Case IV- Like Case III, Case IV assumes that BPA denies use of federal facilities for seasonal exchanges and that Northwest utilities respond by acquiring nonfederal access to extraregional markets. Case IV, however, contains BPA's own assumptions of potential harm. Case IV represents the worst scenario for BPA -- like Case II, Northwest utilities severely impact BPA marketing opportunities in the Southwest. But since they do it via nonfederal facilities, BPA doesn't earn wheeling revenues and is not compensated for occasional seasonal exchange - nonfirm collisions (as they are in both Cases I and II). In summary, Case IV significantly reduces Southwest revenues, Northwest revenues and omits potential revenues from wheeling.

The question of appropriate choice of a base case, then, requires the reader to make the following judgements:

1. If BPA denies seasonal exchanges (or similar transactions) through the Assured Delivery provisions of the proposed LTIAP, do Northwest generating utilities have any real options? If they don't, then Case 0 is the appropriate base case. If the generating utilities do have sufficient resources, then they may develop a CaseIII/IV outcome or negotiate a Case I/II outcome.

2. If Cases I, II, III and IV are all viable, then is it appropriate to assume, <u>a priori</u>, that seasonal exchanges will have no impacts on BPA's Southwest Power Marketing Program goals? If the reader assumes no interference whatsoever, then the appropriate base case is either I or III. If the reader assumes maximal interference, then the appropriate base case is either II or IV.

In sum, clear understanding of results from the PNUCC seasonal exchange model requires comfort with the logical bases of each of the five cases studied by the model. The description of the five cases given above is purposely slightly different than the descriptions given in prior written materials (included in this report). PNUCC staff has never intentionally advocated any of the model's five cases -- Case 0 is our most objective estimate of what

BPA believes to be its base case and each of the other four cases were generated from public comments of individual PNUCC members. As staff indicated at the July 10 meeting of the Intertie Access Policy Work Group, no consideration has been given here to the feasibility or likelihood of market interference, alternate transmission paths or BPA hegemony.

5.1.4 Variables In PNUCC's Model

Range Variables:

1. Exchange Capacity (Max. Intertie Loading): Range of 600 to 1,000 MW.

2. Exchange Load Factor (Monthly): Range of 30% to 50%.

3. Length of Exchange 'Season': Range of 3 months to 5 months.

4. Change in volume of BPA summer secondary sales due to exchanges: Range of zero to -5% (reduction).

5. 'Current' value of BPA secondary in summer: Range of 18 to 22 mills per kwh.

6. Change in volume of BPA winter secondary sales due to exchanges: Range of 30% to 50% (increase).

7. Impact due to BPA 'error' setting price to sell previously-exportable secondary energy to NW utilities who buy under SCE - TWWP-like arrangement: Range of +15% (gain) to -15% (loss) applied on per-kwh basis.

8. Probability of enough secondary energy occuring during summer exchange season to load portion of intertie dedicated to seasonal exchanges: Range of 0.3 to 0.5.

9. BPA's Exportable Agreement-like allocation of intertie capacity: Range of 50% to 75% of total.

10. Exchange participants' allocation of intertie capacity: Range of 40% to 60% of NONFEDERAL share.

11. Impact on BPA ability to market amounts of capacity and firm energy to California in summer if seasonal exchange is permitted: Range of 0% to 100% (applied to amounts of capacity and energy involved in nonfederal seasonal exchange).

12. Impact on BPA ability to market amounts of YEAR-ROUND capacity and firm energy to California in summer if seasonal exchange is permitted: Range of 0% to 100% (applied to amount of energy involved in nonfederal seasonal exchange).

13. BPA ability to convert (MW) losses of firm energy revenues in 11. and 12., above, into earnings at nonfirm rates: Range of 0% to 100%.

14. Cases III and IV only: Degree of damage to SW revenues despite refusal to permit seasonal exchanges. Range of 0% to 100% (applied to amounts of capacity and energy involved in proposed nonfederal seasonal exchange).

15. Cases III and IV only: Amount of NW secondary energy now purchased from BPA that would be exposed to other suppliers: Range of 250 to 1000 MWa.

16. Cases III and IV only: Price that NW currently pays BPA for secondary exposed in 15., above: Range of 5 to 25 mills per kwh.

Static Variables:

1. 'Current' value of BPA secondary in winter: Estimated to be 15 mills per kwh.

2. Public / IOU composition of seasonal exchange participant: Estimated at 30% / 70% for study. (Range of 0% / 100% to 100% / 0% checked in sensitivity testing.)

3. Amount of firm energy IOU would buy from BPA if denied seasonal exchange: Estimated at 100% (of exchange amount).

4. Price IOU would pay BPA for firm energy if denied seasonal exchange: Estimated at 19 mills per kwh (Draft PF-87 winter rate)

5. Amount of capacity IOU would buy from BPA if denied seasonal exchange: Estimated at 0 MW. (Assumes IOU builds CTs for capacity.)

6. Amount of summer requirements shifted from winter to summer by Public seasonal exchange participant: Estimated at 100% (of exchange amount).

7. Impact due to summer / winter firm rate differential applied to shifted, preference customer energy: Estimated at 4 mills per kwh.

8. Amount BPA would earn from capacity and firm energy sales: Estimated at $4.71 per kw-mo and 24.4 mills per kwh (Draft SP-87).

9. Rate(s) under which BPA would gain wheeling revenue by permitting seasonal exchanges: Estimated at (Draft) ET-87 and IS-87 'standard', where applicable.

10. Cases III and IV only: BPA ability to convert energy not marketed to Northwest utilities at high nonfirm rates into sales to lower paying markets: Estimated at 100%.

11. Cases III and IV only: Price that lower market pays BPA for displaced energy: Estimated at 5 mills per kwh

5.1.5 Step-by-Step Example Calculation

The results of the seasonal exchange model were calculated for five different cases. Each case used a different set of assumptions to provide an estimate of the possible range of impacts the seasonal exchanges could cause. This step-by-step description of the calculations used in the study addresses only Case II. Case II basically assumes that the Long Term Intertie Access Policy is modified and put into effect. It is also assumed that as a result of the seasonal exchanges BPA's Southwest power marketing plan will be influence slightly.

The results of the seasonal exchange study are estimates of the expected BPA revenues under the various conditions of each case. The revenues are then compared to the case where BPA completely controls the Intertie and maximizes its benefits. As a result of this comparison ($2,989 million - $2,964 million) Case II shows a net loss to BPA of $25 million. The impacts to BPA revenues are categorized into three types of effects: 1) Direct effects attributable to exchange allocation. 2) Indirect effects occurring to that part of the Intertie's use that BPA reserves for exclusive BPA use. 3) Indirect effects occurring to the use of the remainder of the Intertie.

The calculations assume that the Intertie capacity is 5,200 MW which includes the DC upgrade. For Case II, BPA reserves 4,200 MW which leaves a net available capacity of 1,000 MW for exchanges and nonfirm sales. Of this, it is assumed that 800 MW will be used for seasonal exchanges. Other assumptions include 40% load factor and 4 month duration for the exchanges. This results in an estimated 320 MWa load or 934,400 MWh.

Direct Effects Attributable to Exchange Allocation

The seasonal exchange allocations may directly affect four sources of revenue for BPA; 1) Northwest firm sales during the winter, 2) secondary power sales during the summer, 3) secondary power sales during the winter, and 4) wheeling revenues.

To estimate the direct effects of the seasonal exchanges on BPA's revenues, impacts were calculated for each of the four revenue sources of BPA.

1) Northwest firm sales during the winter:

Assume no impact to BPA revenues.

2) Secondary power sales during the summer:

The impacts due to summer secondary power sales were estimated based on increased exchange sales to the SW market and reduced SW secondary sales:

Secondary summer sales = SW exchange sales - reduction in SW secondary sales

SW exchange summer power sales were estimated with the following equation:

Seasonal exchange capacity X 4 months X 730 hours X 20 mills/kwh X 40% loading frequency of Intertie capacity X 67% of exchange capacity allocated to BPA

or

800 MW X 4 X 730 X 20 mills/kwh X 40% X 67% = $12,520,960

The reduction in SW sales was estimated as follows:

Exchanged energy X summer rate X the decrease in BPA's secondary sales

or

934,400 MWh X 20 mills/kwh X (5%) = ($934,400)

These equations assume the summer energy rate to be 20 mills/kwh and the decrease to BPA's secondary summer sales to be 5%.

The resulting estimate for impacts to BPA's secondary summer power sales is approximately $12.5 million minus $1 million to equal $11.5 million. The study results present a value of $12 million due to rounding.

3) Secondary Power Sales During Winter:

The third direct impact estimated was the effect on winter secondary power sales. Return energy from the SW market would make available additional secondary power for BPA to sell. The estimates were calcalated as follows:

Seasonal exchange energy X winter rate X estimated % increase in BPA sales

or

934,400 MWh X 15 mills/kwh X 40% increase = $5,660,400

The study results present a value of $6 million due to rounding. Again, the 15 mills/kwh is an assumed winter secondary power rate.

4) Wheeling Revenues:

The fourth direct impact to BPA revenues is the effect on wheeling revenues. Wheeling revenues were calculated using current BPA transmission charges and estimates of the amount of power exchanged. The equation for one-way transmission is:

Seasonal exchange capacity X duration X firm capacity rate X 1000 + MWh X firm energy rate

or

800 MWh X 4 months X 0.75 $/kw-mo. X 1000 + 934,400 MWh X 1.60 mills/kwh = $3,895,040

For two-way transmission the value is double or approximately $8 million.

Indirect Effects Occurring in BPA's Reservation

The estimated indirect effects to BPA's revenues generated from the portion of the Intertie BPA reserves for its exclusive use is based on two components; 1) BPA's total Southwest firm and nonfirm sales minus 2) the net loss to BPA Southwest power marketing program. BPA's total Southwest firm and nonfirm sales are estimated at $300 million. The net loss to BPA power marketing program was estimated using the following calculations:

Net PMP loss = Gross PMP loss - Nonfirm sales revenue

Gross power marketing programs losses are attributed to the conditions when the Southwest market is smaller than the Intertie exchange capacity and BPA loses a seasonal exchange due to competition by a nonfederal seasonal exchange. In addition to that loss, BPA loses a year-round, one-way firm energy export because the capacity market is saturated and BPA cannot sell. Therefore, the gross power marketing program impact is estimated as follows.

Gross PMP loss = seasonal exchange lost opportunity + firm export loss

The seasonal exchange lost opportunity losses are calculated by:

Capacity losses = seasonal exchange capacity X duration X SP-87 capacity rate X 1000 X percentage of seasonal exchanges lost

and

Energy losses = seasonal exchange energy X duration X SP-87 energy rate X percent of seasonal exchanges lost

or

Capacity losses = 800 MW X 4 months X 4.71 $/kw-mo. X 1000 X 50%

and

Energy losses = 934,400 MWh X 24.4 mills/kwh X 50%

BPA lost firm export sale losses are calculated by;

Off season months X avg. month hours X SP-87 energy rate X avg. energy X perentage of seasonal exchange energy

or

lost firm expt. = 8 months X 730 X 24.4 mills/kwh X 320 MWa X 50%

If BPA turns around and sells the resulting available power from the lost seasonal exchanges, the sales would offset the Southwest power marketing program losses. The power would be sold at the nonfirm rate. These additional revenues were calculated as follows assuming 100% sale of the lost opportunity power:

NF power sale = NF rate X (lost opportunity energy)

or

Nf power sale = 15 mills/kwh X 1,401,600 MWh

The gross power marketing plan losses minus the renenue from the nonfirm sales would equal ($41,735,040) + $21,024,000 or ($20,711,040). Subtracting this from the estimated total BPA Southwest revenues would equal approximately $279 million.

Indirect Effects Occurring within the Northwest

Based on the assumption in Case II, there would be no effects on the Northwest market attributable to the seasonal exchanges. BPA's revenue projection would remain unaltered at $2,660 million for this sector.

Calculation Summary for Case II

The results of the impacts to BPA's revenues list above match the values presented in the seasonal exchange study results.

Direct Effects Attributable to Exchange Allocations:
(In Millions)

Winter NW Firm	$0
Summer Secondary	$12
Winter Secondary	$6
Wheeling	$8
Subtotal	$25

Indirect Effects Occurring within BPA Reservation:

SW Sales Revenues	$279

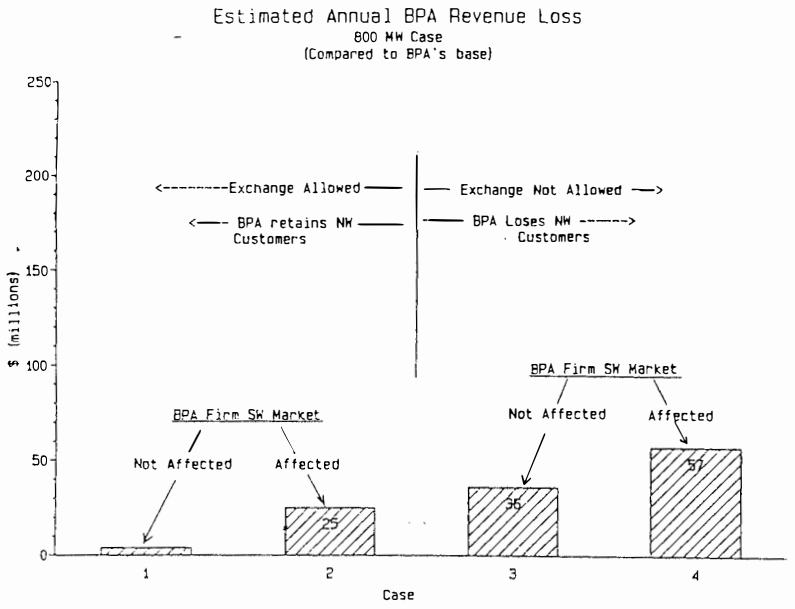
Indirect Effects Occurring within Northwest:

All other NW Revenue	$2,660
Total of BPA Revenues	$2,964

5.1.6 Graphical Summaries of Results

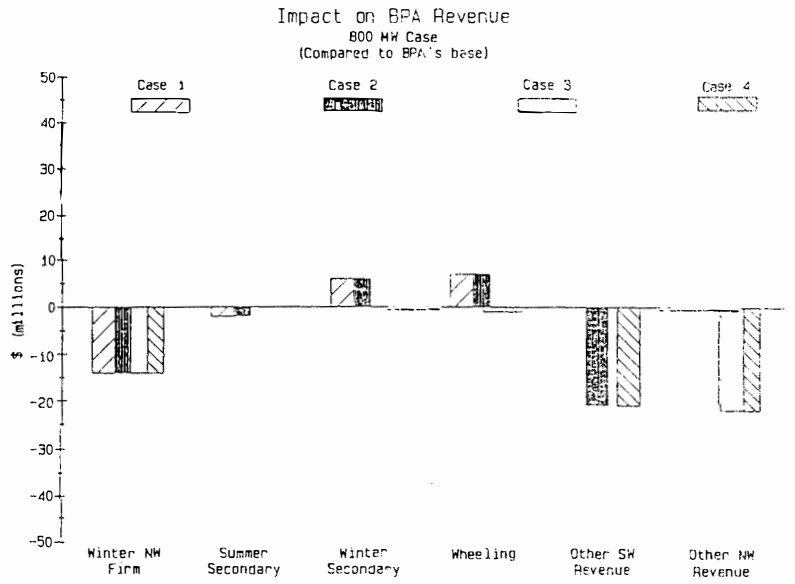
5.1.6.1 Figure 1: 800 MW Case

The following bar chart summarizes the estimated BPA revenue loss for each of the four cases analyzed. Results are shown for the 800 MW exchange case. The major assumptions reflected in the four cases are noted on the figure.



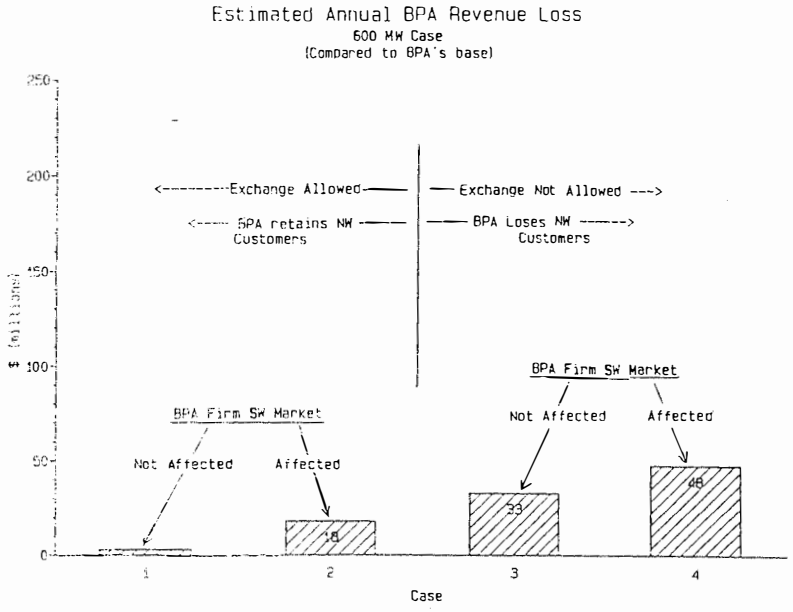
5.1.6.2 Figure 2: 800 MW Case

The bar chart shown below reflects the estimated impact on BPA's revenues for an 800 MW exchange case. The six components of the impact to BPA's revenues are shown for each case. For example, the impact to BPA's revenue from firm sales to its Northwest customers in the winter period is a loss of about $14 million. Likewise the wheeling revenues that Bonneville would gain in Cases 1 and 2 would be about $7 million.



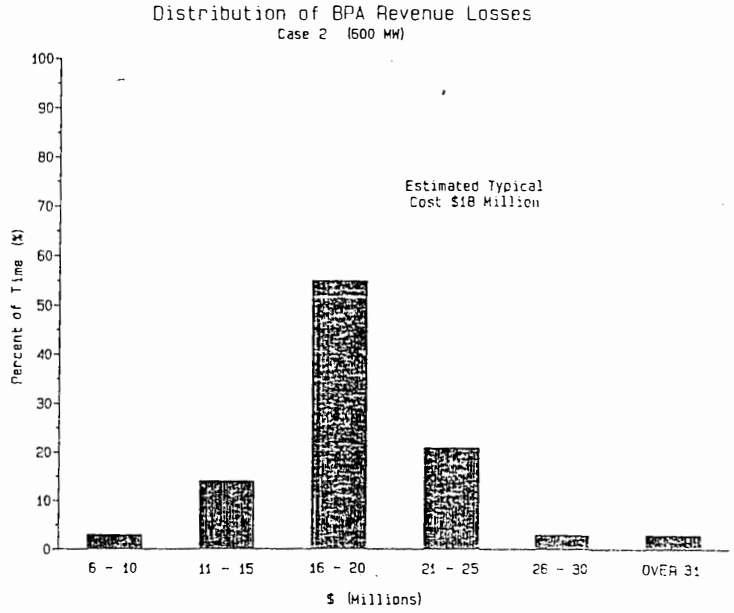
5.1.6.3 Figure 3: 600 MW Case

The next figure summarizes the estimated annual BPA revenue loss for the 600 MW exchange case. Again, key assumptions for each of the four cases are noted on the figure.



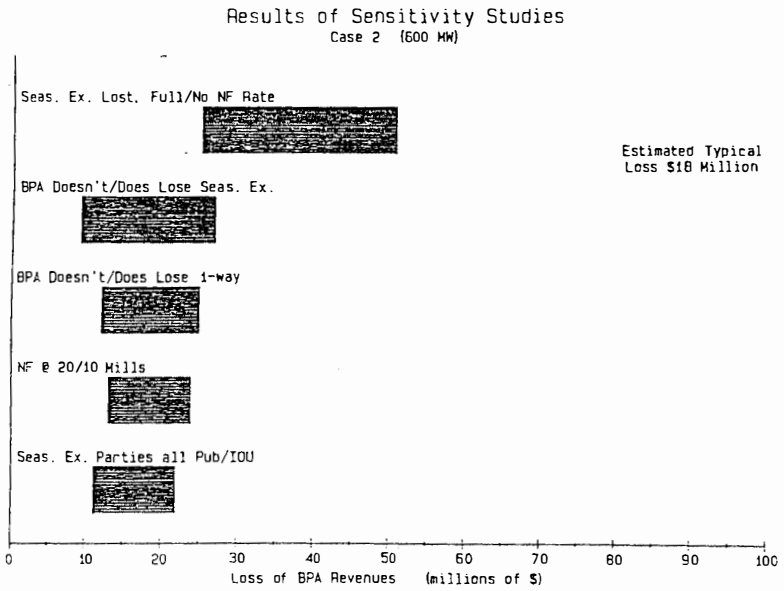
5.1.6.4 Figure 4: 600 MW Case

The following histogram shows the distribution of BPA's revenue loss. This graph summarizes the results of all the sensitivity studies done for Case 2 (600 MW). The estimated 'typical' impact to BPA is $18 million for this case. As indicated in this histogram, over 50% of the sensitivity studies done for this case produce a result in the $16-20 million range.



5.1.6.5 Figure 5: 600 MW Case

A sensitivity analysis was done on the many variables used in the study. This was done to get a sense of how volatile the results were to the range of values used for each variable. The following bar chart reflects the range of the results for several of the most 'sensitive' variables. The results are shown for the Case 2 (600 MW) study. While the estimated typical impact for this case was $18 million, the range of values assumed for the non-firm energy rates produced results from $13 to $24 million.



5.1.7 Summary of Variable Sensitivities

Sensitivity Tests At The 600 MW Level....

	Case I	Case II	Case III	Case IV	
800 MW, "Most Typical"	($4)	($25)	($36)	($57)	(July 10 Nos.)
600 MW, "Most Typical"	($3)	($18)	($33)	($48)	(Baseline for this summary)
Low Load Factor	($2)	($15)	($30)	($43)	
High Load Factor	($4)	($22)	($35)	($53)	
Short Season	($2)	($16)	($30)	($44)	
Long Season	($4)	($21)	($35)	($52)	
NF @ 10 mills	($3)	($24)	($33)	($53)	
NF @ 20 mills	($3)	($13)	($33)	($43)	
Small Effect on Sec.	($3)	($19)	($33)	($48)	
Big Effect on Sec.	($2)	($17)	($33)	($48)	
Secondary Infrequent	($2)	($18)	($33)	($48)	
Secondary Frequent	($3)	($19)	($33)	($48)	
Small BPA Sec. Alloc.	($3)	($18)	($33)	($49)	
Big BPA Sec. Alloc.	($3)	($18)	($33)	($48)	
Small SX Sec. Alloc.	($3)	($18)	($33)	($48)	
Big SX Sec. Alloc.	($3)	($19)	($33)	($48)	
SX Parties All Public	$5	($11)	($25)	($41)	
SX Parties All IOU	($6)	($22)	($36)	($51)	
BPA Doesn't Lose SX	($3)	($9)	($33)	($39)	
BPA Does Lose SX	($3)	($27)	($33)	($57)	
BPA Doesn't Lose 1-Way	($3)	($12)	($33)	($42)	
BPA Does Lose 1-Way	($3)	($25)	($33)	($55)	
SX Lost, No NF Rec.	($3)	($51)	($33)	($81)	
SX Lost, Full NF Rec.	($3)	($25)	($33)	($55)	
No PMP Interference	($3)	($18)	($33)	($33)	
Full PMP Interference	($3)	($18)	($33)	($48)	

No Other NW Effects	($3)	($18)	($11)	($26)
Max Other NW Effects	($3)	($18)	($98)	($114)
NW Pays Low Sec. Rate	($3)	($18)	($11)	($26)
NW Pays High Sec. Rate	($3)	($18)	($55)	($70)
Statistical Summary				
Maximum:	$5	($9)	($11)	($26)
Minimum:	($6)	($51)	($98)	($114)
Average:	($3)	($19)	($34)	($50)
Std. Dev:	$2	$7	$14	$16

5.1.8 Reconciling PNUCC and BPA Analyses

Several members have requested that PNUCC staff reconcile its seasonal exchange analyses with those presented by the Administrator at the Select Customer Group IAP meeting of July 15, 1987. At that meeting, BPA produced a summary table of its own estimated revenue impacts that would be attributable to allowance of seasonal exchanges. BPA also offered a "list of assumptions" in support of its analyses. "Marked up" copies of these documents are included in the Appendices, Volume II.

At this time we believe that we have achieved comfortable reconciliation with BPA's results -- we know how they were derived and as the mark-up of BPA's detailed July 13 table shows, PNUCC's Case II output precisely duplicates BPA's at every point of intersection. The difficulty here is that PNUCC's model was focused solely on single year analysis in the 1989-1991 time frame. On a single year basis, the PNUCC Case II results duplicate BPA's single year results.

The PNUCC model was not designed to allow coverage of even individual year analysis in distant years. Such a model would need to deal with long range variations in oil prices and financial parameters. The most promising solution offered at the July 6 involved the use of random variables to deal with oil prices, but the oil price variances offered were larger than the means. PNUCC staff judged this difficulty to be intractable within the one-week model development period. In any event, are not currently able to confirm or reject BPA's distant-year or multi-year results.

With regard to BPA's list of assumptions, we are able to match nearly all items that have elements of specificity (e.g., 1987 dollars, forecast loads, exchange contract parameters, etc.) We are not able, however, to match a few of the broader points such as the assumption regarding BCH (B.C. Hydro?) displacement opportunities. We know that BPA used various planning models, such as the System Analysis Model, for parts of its Intertie studies and we know that some of these models have "policy options" regarding Canadian transactions. We have not yet been successful at determining that exercising options of that type in planning models are really relevant to the issues at hand. In the PNUCC model, we attempted to treat Canadian suppliers precisely in accordance with the specific terms of the proposed Long Term Intertie Access Policy.

PNUCC efforts to reconcile seasonal exchange results are continuing, but have been limited (or at least slowed) by several other issues demanding attention at both BPA and PNUCC.

5.2 Other PNUCC Studies And Reports

A general summary describing other studies, reports, comments and memoranda that have been prepared by PNUCC staff in response to Intertie issues has not yet been prepared. Official PNUCC comments, as well as other relevant correspondance and several internal summaries and memoranda are available, however, and are included in Volume II of this draft report.

6.0 Guide to Appendices

To the extent practicable, copies of all documents related to the events below are included in Volume II, The Appendix. In the cases of very large documents, such as the Administrator's May 7, 1987 testimony, only title pages are included.

BPA documents can generally be obtained from:

Public Involvement
Post Office Box 12999
Portland, Oregon 97212

(503) 230-3478 (Local)
(800) 452-8429 (Oregon, Outside of Portland)
(800) 547-6048 (Outside of Oregon)

October 22, 1986

BPA EIS cover letter
Intertie Development and Use EIS Volumes I and II (cover pages only)

November 18

Attendance list

December 5

Attendance list

December 16

Letter to Jura

January 5

Text of Congressman Miller's Comments

January 16

PNUCC Comments on IDU-EIS

March 13

Letter from Jura re: Delay of EIS & IAP, Near Term Extension

April 8

Estimate of nonfirm by entity and month

April 14

Minutes
Attendance

May 1

Attendance list

May 7

Jura letter to Miller describing BPA IAP
PNUCC informational meeting agenda and attendance
BPA tentative witness list
Miller hearing agenda
Questions submitted to BPA by Miller
BPA initial response to Miller
BPA second response to Miller

June 5

Agenda
Notes
Minutes
Attendance list

June 16

Meeting notice
Summary of draft intertie analysis
List of utility resources at time of PNW Power Act
Agenda and materials
Federal intertie capacity estimates (memo)
Member concerns regarding seasonal exchange (memo)

July 6

Attendance list

July 10

Attendance list
Handout at meeting
Agenda and materials

July 15

BPA study "Assumptions for Seasonal Power Exchanges"
Summary notes of meeting
BPA interim report to Congress on BPA proposed options

Study and public process
BPA issue papers

July 22

Issue papers
Summary of BPA meeting

August 21

BPA Response to Congress

September 4

Letter to McLennan from Fry
Letter to Eiguren from Jim Jones (State of Idaho)

Your Seattle City Light

Randall W. Hardy, Superintendent
Charles Royer, Mayor

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-136
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
T (CS)
CC: J. Normandeau - ALG
S. Smith - PJI

February 5, 1988

Donna Lou Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Dear Ms. Geiger:

These comments on the "Revised Draft" Long Term Intertie Access Policy (Policy) are submitted on behalf of Seattle City Light (SCL). We have also submitted joint comments with the Public Generating Pool (PGP) which capture the majority of our concerns. We do, however, have some important sensitivities which we want to share with Bonneville Power Administration (BPA) regarding Section 4. (Assured Delivery--Mitigation). In addition, we expand upon our concerns regarding Section 7. (Fish and Wildlife Protection).

The outcome of this Policy will have significant implications with respect to the cost of power purchased from BPA, costs and benefits realized from firm sales, exchange or economy energy transactions, and participation in the 3rd AC Intertie project. Seattle commends BPA in its efforts to develop an equitable Policy and to communicate, through customer meetings and other sessions, with its customers and special interest groups. We expect these discussions to continue to ensure an even better final product.

Our comments are organized into two sections. First, we discuss our position on Mitigation for Assured Delivery. Second, we discuss Fish and Wildlife Protection.

MITIGATION FOR ASSURED DELIVERY

Seattle supports BPA's proposal to set aside some Intertie access for Assured Delivery. This decision will, over the long-term, benefit the region, both BPA and other regional utilities, as well as extra-regional utilities. The quantification of the "costs" associated with Assured Delivery, performed to date by both BPA and the Pacific Northwest Utilities Conference Committee (PNUCC), clearly indicate that the net impact, after mitigation, is negligible. In fact, we anticipate that the proposed Mitigation provisions more than

offset any "costs" that BPA incurs from allowing Assured Delivery. For this reason, we oppose the proposed Mitigation provisions.

If, given further deliberation, we are convinced that mitigation is necessary, then it should be: (1) based upon a stated methodology which is developed in concert with the Final Long Term Intertie Access Policy (Final Policy); (2) specified on a case-by-case basis; and, (3) realized through operational arrangements, contractual arrangements between the utility and BPA, or through a surcharge mechanism.

If the Final Policy embraces mitigation in the form of operational arrangements (e.g., cash out restrictions and "make up the difference" between one's Formula Allocation and Assured Delivery), we recommend that BPA adopt the language proposed in the PGP comments.

We strongly oppose any attempt by BPA to dictate hourly operations through these operational arrangements. We support BPA, in its efforts to require contractual provisions between exchanging parties so that returns are not misused. We do not want the exchange contracts to be used in a way which expands that utility's share of the nonfirm market. This Policy should set guidelines which all utilities, including BPA, can use without compromising operational and economic efficiencies.

FISH AND WILDLIFE PROTECTION

The City of Seattle and SCL have a long-standing interest in and commitment to fish and wildlife protection. We have tracked this issue before the Northwest Power Planning Council (Council), in state-wide planning efforts, before other state agencies and tribes, etc. We are committed to the protection of Pacific Northwest fish and wildlife and support the Council's Fish and Wildlife Program for the Columbia River Basin. We also recognize the importance of protecting BPA's investments in fish and wildlife protection and it is this principle upon which language in the Final Policy should be based (Section 7).

This section should demonstrate the commitment on the part of BPA to support the Federal Energy Regulatory Commission (FERC) and its responsibility under the Electric Consumers Protection Act (ECPA) to require a balanced review of project development in terms of potential impacts to the environment. ECPA now

requires significantly stricter levels of fish and wildlife protection and BPA should encourage and promote the avoidance and mitigation of impacts to fish and wildlife.

The current definition "Protected Areas" (Section I (13) of the Policy) is not fully consistent with the Council's proposal, a situation which allows for possible future uncertainty. The real concern that BPA should be addressing in this Policy is protecting its investments in fish and wildlife. We share this concern because we are one of many generating utilities in the region who have independently made substantial investments for the protection of fish and wildlife resources. If the definition is ultimately included in the Policy, SCL proposes that the following principles be incorporated into the definition.

o Protected Area designations should be limited to new hydroelectric resources on the Columbia River Basin and should not extend to existing hydroelectric resources or hydroelectric resources outside the Columbia River Basin.

o The Policy should protect BPA's fish and wildlife investments by not encouraging the development of new hydroelectric resources in environmentally sensitive areas in the Columbia Basin.

o Incorporation of a Protected Areas definition in the Policy requires a designation of sensitive areas which are, in the long-term, consistent with the Council's Program, including designated Protected Areas. This designation and procedures used for the development of designated areas, should be completed as soon as practicable, recognizing the importance to the region of protecting fish and wildlife. Provisions for amendments in order to ensure on-going consistency with the Council's Protected Area designations are necessary.

We recognize the importance of the principle that BPA's investment in fish and wildlife mitigation must not be undermined. For this reason, we understand and support the potential for reducing access to the Intertie if new hydroelectric resources are developed in environmentally sensitive (Protected Areas) locations. However, BPA should allow for consideration of those special cases where a new hydroelectric resource in a Protected Area may actually enhance fish and wildlife.

We recommend that BPA expect a utility, prior to development of a resource, to demonstrate that the new hydroelectric resource will not: (1) adversely impact BPA's investments in fish and wildlife protection, and (2) compromise BPA's ability to comply with the Council's Fish and Wildlife Program, as required under Section 4(h) of the Regional Act, including the designation of Protected Areas.

If BPA determines that a new hydroelectric resource does not meet the above conditions, then BPA should impose access limitations. We do not support the limitations as proposed due to the exponential reduction to the Formula Allocation, after, limiting the resource capacities which are the basis of the allocation. We strongly suggest that BPA limit the reduction to Intertie access by applying it only to the Final Allocation.

Thank you for the opportunity to comment on this critically important Policy. We look forward to further improvements to the "Revised Draft."

Sincerely yours,

Randall W. Hardy
Superintendent

CCO:jm

EUGENE MUNICIPAL UTILITIES

500 EAST 4TH AVE · P.O. BOX 10148 · EUGENE, OREGON 97440 · 503-484-2311

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JEAN REEDER, Gen. Mgr.

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-137
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
LG (OPG)

February 5, 1988

Donna Lou Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland OR 97212

Dar Ms. Geiger:

We view the development of BPA's Long-Term Intertie Access Policy as the most far-reaching process undertaken by Bonneville and its purchasers for years. We have appreciated BPA's willing attitude toward a fully open process of customer involvement and, in general, we have been pleased with BPA's draft Intertie Access Policy.

Of paramount importance to us is an outcome that will encompass adequate revenue protection for BPA, a fair allocation of intertie capacity to nonfederal users, protection to nonfirm intertie users from harm by assured delivery transactions, and assurances that the region's ability to market its valuable surplus hydro during spill conditions is not placed in jeopardy by provisions that would instead require the operation and marketing of thermal resources. Our comments reflect those concerns.

We have worked closely during the past weeks with other members of Public Generating Pool (PGP) and Pacific Northwest Utilities Conference Committee (PNUCC) and support the comments of both PGP and PNUCC.

We look forward to continued involvement as the development process moves into the cross-comment period.

Sincerely,

Jean Reeder
General Manager

JR:vm
iap.gk

Attachment
LTIAP-3-137

EWEB INTERTIE ACCESS POLICY COMMENTS February 5, 1988

Section 1. DEFINITIONS

11. "Nonscheduling Utility" and 17. "Scheduling Utility"

Concern:

BPA's proposed language excludes utilities such as EWEB from designation as a Scheduling Utility. As a scheduling utility, EWEB schedules power on a hourly basis, but does not operate its own control area. BPA staff agreed at a January 6 clarification meeting that their definition should not have excluded EWEB and that corrected language would appear in the Final IAP.

Recommended Language:

11. "Nonscheduling Utility" means a nonfederal Pacific Northwest utility that owns a generating resource, but does not operate a generation control area and is not designated as BPA computed requirements customer.

17. "Scheduling Utility" means the Pacific Northwest portions of a nonfederal utility which operates a generation control area within the Pacific Northwest or any utility within BPA's generation control area that owns a generating resource, schedules with BPA, and is designated as a Computed Requirements customer.

Section 4. ASSURED DELIVERY

Section 4(d)(2). FIRM POWER SALES

Subsection (B)(1). Current Maximum

Concern:

The 14 average megawatts referenced in Exhibit B as EWEB's Average Firm Surplus Allocation is incorrect because it does not include EWEB's 20 average megawatt wood-waste-fired Willamette Steam Plant. The Willamette Steam Plant is a 30-year-old renewable generating resource and is currently being operated, contributing to EWEB's firm surplus.

Recommendation:

EWEB's Exhibit B Average Firm Surplus amount should be increased from 14 average megawatts to 34 average megawatts, reflecting the addition of the Willamette Steam Plant.

Section 4(d)(4) MITIGATION

Subsection (A) Firm Sales and Deliveries

We support the provisions of BPA's Firm Sales and Seasonal Exchange Deliveries that provide for protection of BPA's nonfirm revenues. BPA is correct in decrementing a utility's formula allocation and also requiring a utility to purchase additional power from BPA to make up the difference between a utility's formula allocation and its assured delivery. BPA should consider extending this requirement during Condition 2.

Subsection (B) Seasonal Exchange Returns

Concern - Subsection (ii). Cash Out:

We support the provision that Scheduling Utilities may not utilize the cash out provisions of an exchange agreement during Condition 1 or 2. This is necessary to protect BPA and nonfederal utilities, not participating in exchanges, from being harmed by the loss of nonfirm markets. We also want to make sure that these exchanges cannot be used by utilities to market their nonfirm power.

Recommendation:

If it is determined that cash outs will occur, they should be limited to the following procedure:

During any hour in which BPA has invoked Condition 1 or 2 allocation procedures to pre-schedule energy deliveries, a utility may use the cash out provisions of its contract to the extent that:

1) The utility has an Formula Allocation equal to or greater than the exchange return cash out.
2) When the return cash out is greater than the utility's Formula Allocation and the difference is purchased from other scheduling utilities with a Formula Allocation.

The utility's Formula Allocation used for cash out will not be available for other transactions. To the extent the utility's Formula Allocation exceeds its cash out return, the difference may be used to market nonfirm power.

Example:

Case 1 Where: Utility's Formula Allocation = 100 MW
Exchange Return Cash Out = 50 MW

In this example the utility has a larger Formula Allocation than the exchange return cash out. In this case the utility can cash out the 50 MW of exchange return and sell 50 MW in the nonfirm market.

Case 2 Where: Utility's Formula Allocation = 50 MW
Exchange Return Cash Out = 100 MW

In this example the utility's Formula Allocation is too small to cash out the full 100 MW of exchange return. If the utility wishes to cash out an amount greater than 50 MW the utility must purchase another 50 MW of Formula Allocation from other Scheduling Utilities.

Section 5. FORMULA ALLOCATION

Section 5(c)(1) Allocation Methods

Concern - Subsection (B)(i) Condition 1:
Hydro capacity should be the only basis for calculating Formula Allocations. Removal of the hydro cap would have a significant adverse impact on the ability of BPA and other utilities to market nonfirm energy during spill periods.

Without the cap, utilities with thermal resources would be encouraged to make inflated declarations in order to receive larger allocations. For example, uneconomical resources, such as combustion turbines, could be included in a utility's declaration without any intention by the utility to actually operate them. It would be economically and environmentally improper to allow hydro to be spilled during times that reservoirs are at capacity, while output from thermal plants, which can be shut down, is being sold over the Intertie.

Recommendation:
BPA should retain the Hydro Cap in Formula Allocation.

PACIFIC POWER & LIGHT COMPANY
920 S.W. SIXTH AVENUE - PORTLAND, OREGON 97204 - (503) 243-4470

Rodney M. Boucher
Vice President

February 5, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-138
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
cc: PSI
ALG-I.M.

Ms. Jo Ann C. Scott,
Public Involvement Manager
Bonneville Power Administration
905 N.E. 11th Avenue, 7th floor - N20
Portland, OR 97212

Dear Ms. Scott:

Revised Draft Long-Term Intertie Access Policy

These comments are in response to Bonneville's request for comments on the Revised Draft Long-Term Intertie Access Policy (LTIAP), December 15, 1987. Since the revised draft was issued, Bonneville has indicated that it may modify several provisions of the LTIAP. However, without an official written revision reflecting such changes, Pacific's comments will address the Revised Draft as it was issued.

In addition to the following comments, Pacific also supports those comments provided by the InterCompany Pool and the Pacific Northwest Utilities Conference Committee (PNUCC).

Conditions for Intertie Access

Section 3.d. As proposed, this section would preclude the use of BPA Intertie capacity to deliver firm or nonfirm power to a Southwest utility as long as a utility had unused contractual or ownership rights to non-BPA transmission facilities, regardless of the quality of service provided by such non-BPA facility, and even though such Southwest utility may represent a market which is not available via the non-BPA facility. The LTIAP is not market specific, and provides better market access to non-Intertie owner utilities than to utilities with Intertie ownership or rights. This unfairly discriminates against utilities that have invested in their own transmission facilities to the Southwest. This policy would unreasonably discriminate against Pacific, which has agreed to contribute its underutilized Intertie rights to the allocation process without compensation of any kind. It is not defensible that Pacific should be denied

access to DC Intertie markets while relinquishing its own rights to BPA for access to the AC Intertie markets.

We suggest rewriting this provision to read:

> "Any utility with contractual or ownership rights to transmission capacity to a specific Southwest utility must fully utilize its own ability to accommodate the specific transaction for which it is seeking Intertie access prior to receiving access to BPA Intertie capacity to accommodate the same transaction to the same Southwest utility."

Formula Allocation

Section 5.c.1.B. The term "spill or in likelihood of spill," is too uncertain. BPA can declare "Condition 1" whenever it appears that spill might occur in the undefined future. The expected degree of spill and the prospective timeframe for such spill to occur must be reasonably quantified, say thirty days, or upon Bonneville's determination that the additional energy expected to be sold under Condition 1 would spill if not sold now.

To limit a Scheduling Utility's formula allocation to the allocable intertie capacity times the ratio of that utility's hydro capacity to the regional hydro capacity unfairly penalizes those utilities who, in cooperation with the rest of the Northwest, developed thermal resources under the Hydrothermal Program to ensure regional adequacy.

It also appears that BPA's basis for this discriminatory provision is unsound, since such an allocation basis has no link to the actual total regional energy surplus. Further, BPA's nonfirm rates are not based solely on hydro resources, nor will BPA's or other utilities' sales over the intertie under Condition 1 be based only on hydro costs even if the Federal system is spilling. This proposed allocation provision is both illogical and unduly discriminatory toward those systems having displaceable thermal resources.

As an alternative to the proposal for Condition 1, we suggest that the "hydro cap" and BPA's applicable rate be eliminated and a Scheduling Utility's allocation for each hour be determined by the ratio of such Scheduling Utility's declaration to the sum of all declarations for each hour multiplied by the available Intertie capacity.

Fish and Wildlife Protection

Section 7. Pacific has previously stated that it does not support fish and wildlife language in the LTIAP. While we applaud BPA's apparent goal of protecting fish and wildlife as well as the Administrator's actions or expenditures related to these resources, there is no need for BPA to take actions which are in addition to hydroelectric project licensing and license review procedures established by the Federal Energy Regulatory Commission (FERC).

The Northwest Power Planning Council's Fish and Wildlife Program provides measures that adequately compensate and mitigate impacts to fish and wildlife resources resulting from the construction and operation of the federal portion of the Columbia Basin hydroelectric system, and FERC adequately regulates provision for fish and wildlife mitigation for non-federal hydro projects. In addition, the newly established Electric Consumers Protection Act (ECPA) now requires even more stringent fish and wildlife protection at the time of relicensing.

If BPA intends to pursue the adoption of fish and wildlife protective measures in the LTIAP, regardless of substantial opposition, we encourage the full consideration of the suggestions presented by PNUCC. PNUCC's comments are a joint statement by all of BPA's customer groups, including the Direct Service Industries, as well as public and investor-owned utilities.

Assured Delivery

Exhibit B. The current Exhibit B determination of each utilities' Intertie capacity available for Assured Delivery excludes Pacific. The attached table calculates Pacific's Exhibit B Assured Delivery amount of 99 average megawatts based on the following comments:

With respect to the proposed Policy's terms for Assured Delivery and the methodology employed for the preparation of Exhibit B, Pacific is uniquely impacted. Because a portion of Pacific's service territory is by geography nonregional, Pacific's total firm surplus is deregionalized such that only about 67 percent of its firm surplus is considered in calculating an Exhibit B Assured Delivery. By the terms of the proposed LTIAP, however, Pacific must use its own Intertie transmission capacity to make 100 percent load factor sales of regional firm surplus to California entities before it can request the use of BPA's Intertie capacity. In recognition of Pacific's right to sell its nonregional firm surplus on its own Intertie transmis-

sion capacity, we suggest BPA reduce Pacific's 300 megawatts of Intertie rights by the amount of Pacific's nonregional firm surplus prior to determining Pacific's Assured Delivery.

It should also be pointed out that Pacific's 115 kV tie to Pacific Gas and Electric Company is totally utilized by an existing firm contract and should not be a factor in determining Pacific's Exhibit B Assured Delivery.

We appreciate the opportunity to provide input on the revised draft Long-Term Intertie Access Policy.

Sincerely,

for Rodney M. Boucher

RMB/WSB/SW

cc: Merrill Schultz, Intercompany Pool

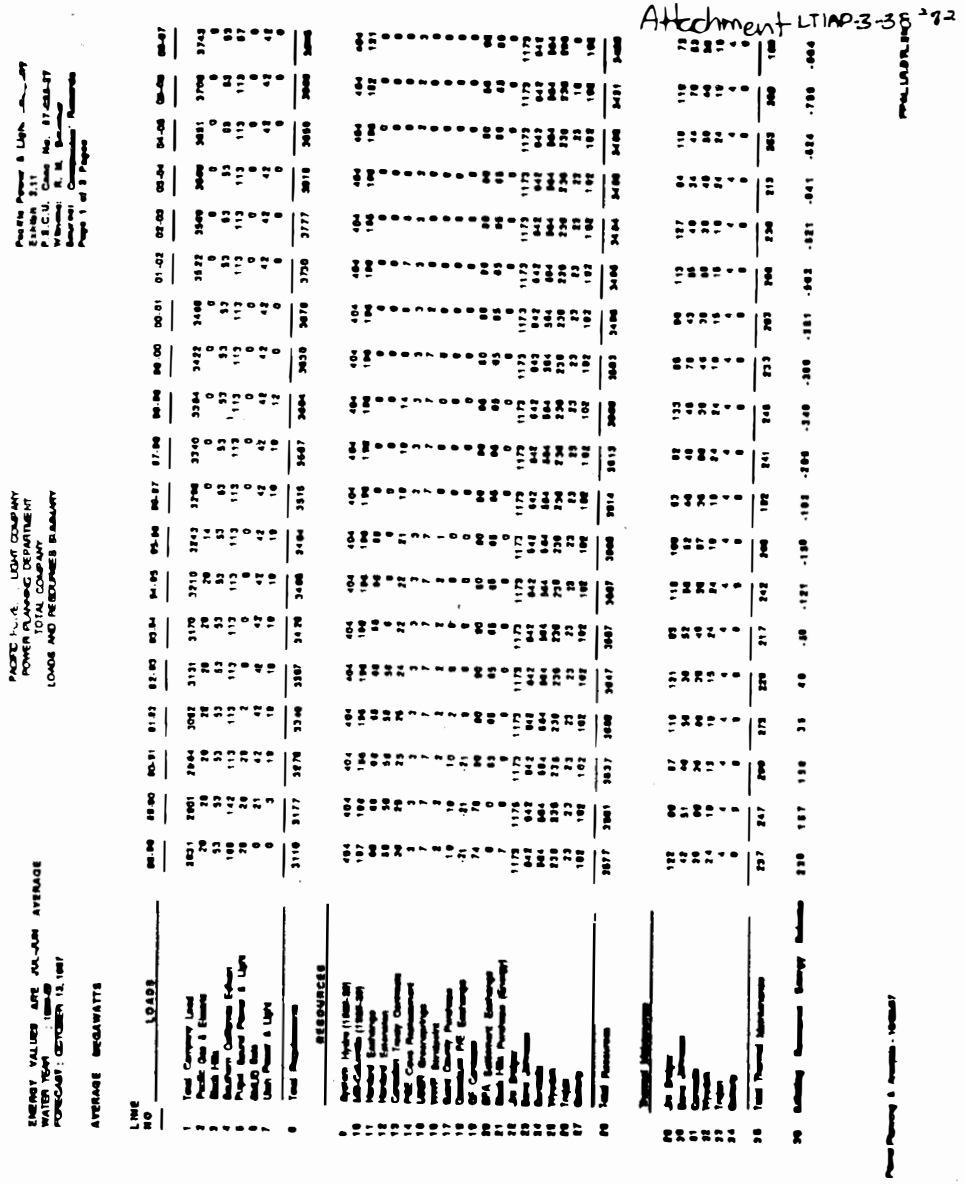
Attachment 1 of 2
LTIAD-3-138

Pacific Power & Light Company
Exhibit B Calculation
avMW
(1988-89)

		REGION*	NON-REGION	Total**
SYSTEM LOAD:		1871	960	2831
FIRM SALES:	Black Hills		53	53
	PG&E	29		29
	SCE	169		169
	Puget	28		28
	REQUIREMENTS	2097	1013	3110
RATIO:		67.4%	32.6%	100%
RESOURCES:				3577
Less Maintenance				-237
	NET RESOURCES			3340
ENERGY BALANCE		155	75	230
PACIFIC POWER & LIGHT COMPANY INTERTIE RIGHTS - MW				300
Less Firm Contracts (SCE)				-169
Less Nonregional Surplus				-75
	NET INTERTIE RIGHTS			56
	EXHIBIT B		155 - 56 =	99

*PNUCC Northwest Regional Forecast - March 1987.
**See attachment: Pacific Power & Light Company
Exhibit 3.11
P.S.C.U. Case No. 87-035-27

Attachment LTIAP-3-38 372



MORRIS L. BRUSETT
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RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-139
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
L (OP)
CC: AL-TS

February 5, 1988

James J. Jura
Administrator
Bonneville Power Administration
P.O. Box 3621/A
Portland, Oregon 97208

Dear Mr. Jura:

Thank you for the opportunity to comment on Bonneville's Revised Draft Long-Term Intertie Access Policy.

Our first comment addresses Bonneville's proposal to use the protected areas identified in a Council staff proposal dated October 8, 1987 as fish and wildlife protection in the Long Term Intertie Access Policy. As you know, the Council is in the process of considering protected area designations for valuable fish and wildlife habitat in the Northwest. This process could result in amendments to the Columbia River Basin Fish and Wildlife Program for streams in the Columbia River Basin and to the Northwest Conservation and Electric Power Plan for other streams in the Northwest. The Council intends to determine in March or April of this year whether to enter rulemaking with a Council proposal. Our understanding is that Bonneville intends to adopt a final policy in late April, and could refer to such a Council proposal in the final policy.

The Council expresses no opinion on the outcome of its own decisions in the protected areas process, and neither endorses nor rejects the staff's protected areas proposal. Should the Council act, Bonneville would be on sounder footing in relying on a Council proposal as criteria for intertie access rather than a staff proposal. We appreciate that Bonneville would review its protected areas based on the outcome of the Council's rulemaking process.

We also note that Bonneville's draft policy is limited to areas within the Columbia River Basin. The Council believes that the reasons for giving consideration to fish and wildlife within the basin apply equally to the region outside the basin. While questions can be and are raised with respect to the Council's authority to deal with fish and wildlife outside the basin, no such restriction impinges on BPA action and we believe some further attention to intertie access conditions outside the basin is in order. The Council has not yet determined whether protected areas may be appropriate outside the basin. However, if Bonneville intends to rely on Council protected areas, we believe that Bonneville should not rely on some parts and exclude others. We look forward to working with Bonneville, the Federal Energy Regulatory Commission, and other interested parties in considering the protected areas issue.

In the Council's March 2, 1987 letter we stated that "The Council shares Bonneville's desire to prevent further degradation of fish and wildlife resources wherever possible. Any action in this area should be consistent with the Council's Plan and Fish and Wildlife Program". Accordingly, the Council believes that resources consistent with the fish and wildlife measures of the power plan and the fish and wildlife program should not be denied access to the intertie on fish and wildlife grounds, and conversely, resources not consistent should not have access to the intertie. We believe that this course would remove the need for Bonneville to adopt a special procedure for examining existing projects located in protected areas after their FERC licenses expire. The protected areas proposal being considered by the Council does not address existing projects.

We are encouraged by two other provisions that were addressed in our March 2nd letter. First, we support the provision of access for seasonal exchanges in the revised policy. This provision, widely sought by Northwest utilities, should aid in promoting regional cooperation and reduce the construction of new resources in the Northwest and in California. Second, we support the "Waiver of BPA Service Obligation," section 4(b) of the revised policy, which we understand to incorporate the requirements of sections 9(c) and 9(d) of the Northwest Power Act. This provision should avoid a situation where Bonneville must acquire new resources to serve loads that had been served by resources that were sold outside the region. The Council believes these provisions are important to the region and supports this revision.

In conclusion, we reiterate our comments of March 2, 1987 to the extent still pertinent. Finally, the Council may provide additional comments on these and other issues later in February.

Thank you for your consideration.

Very truly yours,

Morris

Morris Brusett
Chairman

VIGILANTE ELECTRIC COOPERATIVE INC.

225 E. BANNACK STREET • PHONE 683-2327 • DILLON, MONTANA 59725
POST OFFICE DRAWER 71

February 4, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-140
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
UM (OKK)

Ms. Jo Ann Scott
Public Involvement Manager
Bonneville Power Administration (ALP)
905 N.E. 11th. Ave.
Portland, OR 97232

Re: Proposed Intertie Access Policy

Dear Ms. Scott:

We understand that the Public Power Council, Non-Generating Public Utilities, PNUCC and other groups and organizations will be providing comments on the Proposed Intertie Access Policy, but we feel that Vigilante Electric must also comment on this policy.

Bonneville Power has a very legitimate interest, and obligation as well, to exercise a "BPA First" policy with respect to intertie transmission facilities to increase Bonneville revenues to insure timely payments to the U. S. Treasury on the ever increasing BPA debt.

With this in mind, we do not feel that it is appropriate to provide Montana Power with 105 MW of intertie capacity either on a short-term or long-term basis. Our public utilities who are not now generating, but working on hydro and other resource development may well need this capacity in the near future. In the meantime, BPA should use this capacity in the most cost effective manner to maximize revenue. IOU sales on the intertie should never be used to displace BPA transactions and reduce BPA revenues. Several IOU's export power and participate in the Exchange only when it is in their financial interest to do so--no risk involved.

We also feel that it is inappropriate to adopt the Regional Council staff's proposed Protected Areas Study, and thereby impose additional controls that FERC now has the responsibility to exercise. The present FERC proceedings under the Electric Consumers Protection Act and other Federal statutes, provide adequate regulatory controls without language that is simply proposed at this point. The scope and effect of the proposed Protected Areas policy, is much greater and far reaching than just planning. Our understanding is that the Council is a planning, rather than a regulatory, body.

The Intertie Access Policy should encourage rather than curtail hydro and other resource development in the region--especially in times of need. The Policy should never be used in a prohibitive fashion. This concept will better serve both BPA and the region's utilities and ratepayers. Our ratepayers need some consideration and protection in these proposed policies as well. To this extent, the Council's Protected Areas language should clearly state that Protected actions will not affect existing projects and existing BPA facilities in, or out, of the Region.

Intertie and other transmission facilities have been the lifeline for utilities and consumers as well, in all regions of the country. More effort and studies should be done to provide for large regional exchanges and delivery by displacement between BPA, Western Area Power Administration, and Basin Electric Power for the mutual benefit of all regions. For these and many other reasons, intertie and other transmission access is the key to the lifeline for all utilities, in cost effective service to electric ratepayers.

We appreciate the opportunity to provide comments on the Proposed Intertie Access, and appreciate your consideration.

Sincerely,

Wilbur Anderson
General Manager

WLA:lkm

cc: M. Brussett, Council Chairman
G. Turman, Council
Wayne Lee, BPA
George Eskridge, BPA
Vigilante Trustees
Steve Herndon
Jay Downen
Western G & T Systems

Pacific Northwest Generating Company
Serving the power needs of our member rural electric cooperatives.

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PNGC

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-141
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
All

February 5, 1988

Mr. John Cameron, Esq.
Project Manager
Intertie Access Policy
Bonneville Power Administration
PO Box 3621
Portland, Oregon 97208-3621

Dear John:

The Pacific Northwest Generating Company (PNGC) submits these comments on the Bonneville Power Administration's (BPA) proposed Long Term Intertie Access Policy (LTIAP). PNGC has commented before at several stages in the LTIAP development process. In addition, we have participated in public discussion sessions and have conferred with the BPA staff to discuss our special concerns. We commend the BPA staff's efforts to understand and address individual concerns while staying on schedule.

Introduction

PNGC's Members are firm power requirements customers of BPA and consequently desire to maintain stable BPA rates. The success of BPA's marketing program, including management of the Federal Pacific Northwest-Pacific Southwest Intertie (intertie), is important to maintaining stable rates. At the same time, PNGC has a resource (Boardman) that is surplus to the needs of its Members for the foreseeable future. Obtaining long-term firm intertie access will be necessary to consummate a sale of power from that resource on terms that will benefit BPA as well as PNGC's Members. Accordingly, we have a large stake in Bonneville adopting an intertie access policy that ensures BPA's ability to market its surplus while it provides reasonable access to Northwest utilities with surplus generation.

Our main comments are in three parts. The first part contains general comments on assured delivery, formula allocation and mitigation. The second part includes detailed comments including proposed language concerning intertie access for nonscheduling utilities. The third section addresses fish and wildlife protection, specifically the "protected areas" concept. Attached is a mark-up of the December 15, 1987 draft LTIAP containing proposed language relating to nonscheduling utilities and fish and wildlife. In addition, PNGC supports the comments which the Public Power Council is submitting. Those comments reflect a basic consensus among all of BPA's preference customers.

General Comments

Assured Delivery

PNGC supports BPA's providing up to 800 megawatts of assured delivery for firm power and seasonal exchange transactions of Northwest scheduling utilities. Also, we urge BPA to provide continued access for long-term transactions currently receiving service under the Near Term Intertie Access Policy.

Providing such access strikes a reasonable balance between legitimate interests in the region while protecting BPA revenues. BPA should retain the option to revisit the 800 megawatt number should conditions (e.g., the transfer capability of the intertie) change.

Formula Allocation

PNGC takes no position on whether formula allocation under Condition 1 should be based on the hydro cap or on declarations. However, BPA should allocate to the available intertie capacity rather than to the "market," provided that BPA retains the ability to sell its full pro rata allocation using an approach such as the one discussed at the January 27 meeting. BPA should not leave itself vulnerable to undercutting by utilities that operate with full knowledge of BPA price offers.

Mitigation

BPA should require reasonable mitigation to compensate for lost revenue or other impacts which result from providing 800 megawatts of assured delivery. However, compensation should be required only for real damages. We have reviewed the recent estimates of the potential financial harm BPA may suffer from granting assured deliveries to scheduling utilities. Some of the estimated impacts are almost entirely speculative. If a mitigation charge is to have credibility, BPA must be able to demonstrate convincingly that such a charge reflects damages that would actually occur.

For example, granting assured delivery during the summer months would undoubtedly reduce BPA's non-firm sales during periods when Northwest supplies exceed the physical capacity of the intertie, particularly during Condition 1. However, whether (in the case of a seasonal exchange) BPA would also lose a sale of firm capacity or energy in one or both regions is speculative at best. It would be appropriate to develop and levy a charge on summer assured delivery transactions to compensate BPA for the first case. It would not be for the second.

In sum, PNGC supports mitigation to recover BPA revenue losses that are obvious and demonstrable. We do not support mitigation to compensate for impacts based on speculation about what future transactions BPA or other utilities might have entered into had assured delivery not been provided in specific cases.

From this perspective, we support BPA's pursuit of the mitigation charge concept as an alternative form of mitigation for utilities seeking firm intertie access. However, the LTIAP should permit utilities to negotiate mitigation with BPA on a case-by-case basis. Moreover, mitigation should not be required if providing assured delivery will have a neutral or positive effect on BPA's revenues.

Access for Nonscheduling Utilities

The December 15, 1987 draft LTIAP recognized the need to address intertie access for the qualifying resources of Northwest utilities that do not operate generation control areas and are not computed requirements customers of BPA ("nonscheduling utilities"). However, the draft LTIAP does not specify the section of the policy under which nonscheduling utilities may obtain intertie access. Moreover, BPA's definition of a "nonscheduling" utility would include some utilities listed in Exhibit B.

The attached mark-up of the December 15 draft contains language that provides explicit and consistent treatment of nonscheduling utilities. The proposed changes resulted from our discussions with the BPA staff and with Northwest resource owners including scheduling and nonscheduling utilities. The main changes include: 1) revised definitions of scheduling and nonscheduling utilities that reflect our understanding of BPA's intent, 2) additional language for subsection 4(c) clarifying that nonscheduling utility access will be provided via intertie capacity reserved for BPA, and 3) the definition, "Northwest Utility," for use when there is no need to distinguish between scheduling and nonscheduling utilities. We also urge BPA to eliminate from the policy non-operative language (e.g., subsection 3(b)) that is more appropriate in a record of decision.

Fish and Wildlife

PNGC does not support the inclusion of fish and wildlife language in the LTIAP. However, if BPA decides to include fish and wildlife provisions in the LTIAP, the purpose should be to protect BPA's customers' substantial and continuing investment in fish and wildlife measures. Moreover, should BPA pursue a "protected areas" concept in its final policy, PNGC suggests that intertie access be denied only for new hydroelectric projects that would result in harm to anadromous fish habitats that could not be reversed or mitigated, or where such harm would undermine BPA's actions to protect, mitigate and enhance fish and wildlife under the Northwest Power Act.

If BPA carries out a protected areas concept, BPA should also accept the responsibility for the identification of those critical areas. BPA should not leave that determination to the Northwest Power Planning Council. BPA's authorities, responsibilities and objectives are quite different than the Council's. The Council's perspective is regional. It is a planning body with no service responsibility. In contrast, BPA's primary mission is to serve the power needs of its customers at the lowest cost possible consistent with its other responsibilities. BPA is in the best position to strike the proper balance between the interests of its customers, including the possible need for new hydro resources, and fish and wildlife concerns.

When exercising that judgment in identifying protected areas for the LTIAP, PNGC suggests the following guidelines for BPA:

- o Restrict actions to the Columbia Basin.
- o Restrict actions to new hydroelectric development.
- o Identify critical anadromous fish habitats within the Columbia Basin where new hydroelectric development would appear to have impacts that cannot be reversed or mitigated.
- o Avoid use of stream reaches, which are hydrologically, not biologically determined.

The attached mark-up includes alternative language that reflects these principles.

PNGC appreciates this opportunity to comment. We look forward to further dialogue on the issues.

Sincerely,

Joseph W. Nadal Jr.

Joseph W. Nadal, Jr.
Manager, Power and Resources

Aleka U. Kitchen (LW)

Aleka U. Kitchen
Rates and Policy Analyst

Copy to-
PNGC Board of Directors
Dan Ogden, PPC
John Carr, DSI
Al Wright, PNUCC
Ray Foleen
Robert Greening
Mark Glaess, ORECA
Roy Eiguren
Craig Thomas, WREA
Jay Downen, MAU
George King, ICUA
Arnold Brauff, WRECA
Dennis Rohr
Al Benedetti
BPA Area & District Offices

Section 1. Definitions

1. "Administrator" means the Administrator of Bonneville Power Administration (BPA) and is used interchangeably with BPA.

2. "Administrator's Power Marketing Program" refers to all marketing actions taken and policies developed to fulfill BPA's statutory obligations. These actions and policies are based on exercises of broad authority to act, consistent with sound business principles, to recover revenue adequate to amortize Federal investments in the Federal Columbia River power and transmission systems, while encouraging diversified use of electric power at the lowest practical rates. In the Northwest, the Administrator's Power Marketing Program includes BPA's power supply obligations and programs to market surplus power in a manner that assures an adequate, reliable, economical, efficient, and environmentally acceptable power supply, while preserving regional and public preference to Federal electric power. In the Southwest, the Administrator's Power Marketing Program includes the Administrator's programs to market surplus Federal power at equitable prices and to assist in marketing the Northwest's non-Federal power surplus.

3. "Assured Delivery" means firm Intertie transmission service provided by BPA under a transmission contract to wheel power sold or exchanged by a Northwest utility to a [~~covered by a contract between a Scheduling Utility and a~~] Southwest Utility. Assured Delivery contracts may not exceed 20 years' duration. The service is interruptible only in the event of an uncontrollable force or a determination made pursuant to sections 7 or 8 of this policy. Assured Delivery service will be reduced only by the amount of transmission capacity to the Southwest later acquired by a Scheduling Utility through ownership or contract.

4. "BPA Resources" means Federal Columbia River Power System hydroelectric projects; resources acquired by BPA under long-term contracts, including resources acquired pursuant to sections 5(c) and 6 of the Northwest Power Act; and resources acquired pursuant to section 11(b)(6)(i) of the Federal Columbia River Transmission System Act.

5. "Extraregional Utilities" are generating utilities, or divisions thereof, that do not provide retail electric service and own or operate significant amounts of generating capacity in the Northwest.

6. "FD Supported Sale" means that portion of a Scheduling Utility's firm sale equal, in amount and shape, to the utility's purchase of BPA firm Displacement power.

7. "Formula Allocation" means the shares of Intertie Capacity made available to Scheduling Utilities and, under certain conditions, Extraregional Utilities for short-term sales of energy.

8. "Intertie" means the two 500-kilovolt (kV) alternating current (AC) transmission lines and one 1,000-kV direct current (DC) line, which extend from Oregon into California or Nevada, and any additions thereto identified by BPA as Pacific Northwest-Pacific Southwest Intertie facilities.

9. "Intertie Capacity" means the North to South transmission capacity of the Intertie controlled by BPA through ownership or contract, increased by power scheduled South to North, decreased by loop flow, outages, and other factors that reduce transmission capacity, and further decreased by Pacific Power & Light Company's schedules, under its scheduling rights at the Malin substation (BPA Contract Nos. DE-MS79-86BP92299 and DE-MS79-79BP90091).

10. "Mitigation" refers to the conditions, other than rate schedule provisions, imposed by BPA on a Scheduling Utility in return for an Assured Delivery contract. Mitigation helps offset operational and economic problems, attributable to a Scheduling Utility's power transaction, that inhibit BPA's ability to meet its existing firm load obligations or to generate revenues. The Mitigation measures specified in this policy must be included in all Assured Delivery contracts, unless substitute measures are negotiated with BPA on a case-by-case basis.

11. "Nonscheduling Utility" means a utility located in the Northwest which is not a Scheduling Utility ~~[non-Federal Northwest utility that owns a generating resource, but does not operate a generation control area within the Pacific Northwest]~~. A Nonscheduling Utility requesting Intertie access for its resource must do so through the Scheduling Utility (or BPA) in whose control area the resource is located.

11a. "Northwest Utility" means Scheduling and Nonscheduling Utilities.

12. "Pacific Northwest" (or "Northwest") is defined in the Northwest Power Act, 16 U.S.C. §839e, as the states of Oregon, Washington, and Idaho; the portion of Montana west of the Continental Divide; portions of Nevada, Utah, and Wyoming within the Columbia River drainage basin; and any contiguous service territories of rural electric cooperatives serving inside and outside the Pacific Northwest, not more than 75 air miles from the areas referred to above, that were served by BPA as of December 1, 1980.

13. "Protected Area" means a portion of a stream reach, as designated by Bonneville, in the Columbia River Basin where the development of new hydroelectric projects would (1) cause harm to anadromous fish habitat which can not be reversed or mitigated, or (2) decrease the effectiveness of, or cause an increase in, Bonneville's expenditures and other actions in its implementation of section 4(h) of the Regional Act. [DELETE ENTIRE OLD SECTION.]

14. "Qualified Extraregional Resources" means:

(a) a generating unit located outside the Northwest that was in commercial operation on the effective date of this policy. However, the term excludes the portions of units covered as Qualified Northwest Resources.

(b) after the Administrator has determined that the capacity of the Intertie is rated at approximately 7,900 MW, all resources located outside of the Northwest, other than the portions of extraregional resources covered as Qualified Northwest Resources.

15. "Qualified Northwest Resources" exclude BPA Resources, but include:

(a) Generating resources located inside the Northwest that were in commercial operation on the effective date of this policy. Regarding

generating resources owned or controlled by Nonscheduling Utilities, it must be demonstrated that a relationship had been established by that date with a Scheduling Utility or BPA to serve Northwest loads.

(b) Scheduling Utility extraregional generating resources dedicated to Northwest loads on the effective date of this policy. This term includes pro rata portions of Montana Power Company's and Pacific Power and Light Company's shares of the Colstrip No. 4 generating station, based on the ratio of their respective regional loads to their respective total loads, and Idaho Power Company's share of Valmy No. 2.

(c) New regional resources of Northwest ~~[Scheduling]~~ Utilities, except for hydroelectric resources located in Protected Areas which are needed to support power contracts receiving Assured Delivery service under this policy.

16. "Resource" means an identified electric generating unit or stack of particular electric generating units identified to supply power or capacity for sale over the Intertie.

17. "Scheduling Utility" means a utility, not including BPA, that operates a generation control area within the Pacific Northwest, and any utility within BPA's generation control area that schedules with BPA and is designated as a Computed Requirements customer ~~[the Northwest portion of a non-Federal utility that operates a generation control area with the Northwest]~~.

18. "Seasonal Exchange" means a transaction that takes advantage of seasonal diversity between Northwest and Southwest loads through transfers of firm power, at a prespecified delivery rate, from North to South during the Southwest's summer load season and from South to North during the Northwest's winter load season. Seasonal Exchanges may involve payments of additional consideration to reflect the relative seasonal values of power throughout the western United States. Seasonal Exchange schedules of Northwest utilities will be referred to as "deliveries," and schedules of Southwest utilities will be referenced as "returns." A ~~[Scheduling]~~ Utility must be able to support its summertime firm power deliveries with generating resources that are surplus to its Northwest requirements. The sum of a ~~[Scheduling]~~ Utility's energy resources for each month in which deliveries are made (with special concern for August) must exceed its corresponding Northwest loads by an amount sufficient to support the Seasonal Exchange.

19. "Section 9(i)(3) resource" means a Scheduling Utility resource that BPA has granted priority in receiving BPA transmission, storage and load factoring services.

Section 2. Intertie Capacity Reserved for BPA

The Administrator reserves for BPA's use Intertie Capacity sufficient to:

(a) deliver the full amount of BPA's surplus firm power,

(b) perform obligations under existing BPA transmission contracts listed in Exhibit C, to the extent such obligations differ from the conditions specified in this policy, and

(c) provide Assured Delivery service for transactions not subject to limits under Exhibit B to this policy.

Section 3 Conditions for Intertie Access

(a) All intertie access will be granted pursuant to the conditions and procedures of this policy, unless otherwise specified in the three existing BPA transmission contracts listed in Exhibit C.

~~(b) BPA will provide Intertie access only for BPA Resources and the Qualified Northwest Resources of Scheduling Utilities, except to the extent that Qualified Extraregional Resources are permitted access under this policy.~~

(b) ~~(c)~~ BPA will provide Assured Delivery and allocate remaining Intertie Capacity when providing such access will not substantially interfere with operating limitations of the Federal system. Examples of these limitations, which reflect BPA's obligation to operate in an economical and reliable manner consistent with prudent utility practices, include:

(1) The BPA reliability criteria and standards,
(2) Western Systems Coordinating Council minimum operating reliability criteria,
(3) North American Electric Reliability Council Operating Committee minimum criteria for operating reliability, and
(4) coordination agreements among BPA, scheduling utilities and other Federal agencies regarding resource and river operations.

(c) ~~(d)~~ Any utility that has contractual or ownership rights to transmission capacity to Southwest utilities must be fully utilizing such capacity prior to receiving any access to BPA Intertie Capacity.

Section 4. Assured Delivery for Intertie Access

Subject to the limitations and other conditions in this section and in other sections of this policy, BPA has determined that it can provide Assured Delivery to Northwest ~~(Scheduling)~~ Utilities without causing substantial interference with the Administrator's Power Marketing Program.

(a) Access For Utilities Owning Or Controlling Southwest Interconnections

Assured Delivery is intended primarily for ~~(Scheduling)~~ Northwest Utilities which lack interconnections with the Southwest. A utility with transmission access to Southwest utilities, through contract or ownership, must utilize all such capacity on a firm basis before receiving any Assured Delivery. A utility is eligible for Assured Delivery only to the extent that the sum of its Exhibit B amounts exceeds its own transmission capacity to the Southwest.

(b) Waiver Of BPA Service Obligation. Assured Delivery contracts must contain a waiver of BPA's obligation under the Scheduling Utility's power sales contract, up to the amount of power for which firm Intertie access is provided.

~~Transactions described in this subsection (c) shall be provided intertie access on the portion of the intertie described in section 3 of this policy.~~

(1) Joint Ventures. Joint ventures between BPA and Northwest ~~(Scheduling)~~ Utilities, such as firm displacement contracts, which allow BPA to increase its sales of surplus power quality for Assured Delivery.

(2) Sales In Lieu of Exchanges. BPA may offer to satisfy Northwest ~~(Scheduling)~~ Utility demands for Seasonal Exchanges by selling them incremental amounts of surplus firm power during winter months. Upon committing to purchase such incremental firm power at negotiated prices that reflect BPA's lost opportunities for summer sales, a Northwest ~~(Scheduling)~~ Utility will qualify for Assured Delivery (with mitigation) to wheel an equal amount of firm capacity and energy over the intertie during summer months.

(3) Sales by Nonscheduling Utilities. A sale or exchange of power from a Qualified Northwest Resource of a Nonscheduling Utility to a Southwest Utility shall be provided Assured Delivery upon terms mutually agreeable to BPA and the Nonscheduling Utility.

~~(47)~~ (4) A Northwest Utility may request at any time the Assured Delivery for ~~(of)~~ transactions identified in sections 4(c)(1), 4(c)(2), and 4(c)(3). Relevant contracts must be presented for review when Assured Delivery is requested. BPA will satisfy a request within 60 days after a Northwest ~~(Scheduling)~~ Utility has demonstrated satisfaction of the requirements of this policy.

(d) Transactions Subject To Exhibit B Limits Under This Policy

(1) Maximum Amounts Of Assured Delivery. BPA will provide 800 MW of Assured Delivery for transactions, limited by Exhibit B amounts, that are identified in this policy. BPA will determine the amount of any additional Assured Delivery increment after conclusion of the Third AC participation process. Moreover, the 800 MW amount may be subject to some reduction if the DC terminal expansion project is not completed on schedule.

(2) Firm Power Sales

(A) Existing Transmission Contracts. BPA will provide Assured Delivery for the remaining term of the firm power sale contract identified in Exhibit C to this policy.

(B) Exhibit B amounts.

(i) Current maximum. Each Scheduling Utility's maximum Assured Delivery amount for firm sales equals its average firm energy surplus, shown in Exhibit B to this policy. Except for Montana Power Company (MPC), Exhibit B represents projected Scheduling Utility surpluses for the 1988-89 operating year. In satisfaction of all obligations to MPC under Northwest Power Act section 9(i)(3), MPC's Exhibit B amount is set at 105 MW to facilitate long-term sales of firm power from its share of the Colstrip No. 4 coal-fired generating station.

(ii) Future changes. BPA may, at its discretion, revise Exhibit B to reflect changes in the firm power surpluses of individual utilities; however, the 361 MW Exhibit B average firm surplus total is not subject to increase. Any unutilized Assured Delivery amount is revoked if, upon revision, a utility's individual Exhibit B amount has declined or if a utility has sold firm power to another utility seeking to increase its Exhibit B average firm surplus amount. A Scheduling Utility may increase its individual Exhibit B amount by purchasing surplus firm power from BPA or any Scheduling Utility with an Exhibit B amount.

(iii) Nature Of Transactions. BPA will not provide Assured Delivery for transactions which a Scheduling Utility cannot demonstrate to be other than an advance arrangement to sell nonfirm energy. Nonfirm energy transactions may receive Intertie access only under section 5 of this policy.

(C) Shaping. Firm power sales eligible for Assured Delivery may be shaped within the following ranges. During the months of September through December, a Scheduling Utility may deliver firm energy at a rate up to 1.8 times its Exhibit B average firm surplus amount. During the months of January through August, a Scheduling Utility may deliver firm energy at a rate no greater than 1.0 times its Exhibit B amount. However, total delivered energy may not exceed the Exhibit B annual firm energy maximum.

(3) Seasonal Exchanges

(A) Existing Contracts. BPA will provide Assured Delivery for the remaining term of the Seasonal Exchange contracts identified in Exhibit C to this policy.

(B) Exhibit B Amounts. Subject to the individual utility Seasonal Exchange maximums in Exhibit B, BPA will provide Assured Delivery to facilitate Seasonal Exchanges of Qualified Northwest Resources. The current Exhibit B (representing Intertie Capacity Available for Assured Delivery) is subject to revision at the discretion of BPA.

(4) Mitigation

(A) Firm Sales And Seasonal Exchange Deliveries. During any hour in which BPA has invoked Condition 1 allocation procedures to preschedule energy deliveries, each utility's Assured Delivery amount shall be deducted from its formula allocation to determine its share of energy scheduled on the Intertie. If the remainder is negative for a given utility, then that utility must purchase sufficient energy from BPA, at BPA's then-applicable rate, to make up the difference.

(B) Seasonal Exchange Returns

(i) Returns. Exchange contracts must specify that all return energy be scheduled to either the AC Intertie point of interconnection at the California-Oregon border ("COB") or the DC Intertie point of interconnection at the Nevada-Oregon border ("NOB"). Exchange contracts must also specify prescheduled determinations of hourly energy returns.

(ii) Cash out. During any hour in which BPA has invoked Condition 1 or Condition 2 allocation procedures to preschedule energy deliveries, a utility may not utilize the cash-out provisions of a Seasonal Exchange contract. The rate of a cash out during Condition 3 shall not exceed than the rate at which the exchange return could have been scheduled.

(5) Satisfying Requests For Assured Delivery. To allow sufficient time for contract negotiation, initial requests under this policy will be accepted until February 1, 1989. Thereafter, BPA will negotiate and

execute Assured Delivery contracts. If Intertie Capacity remains available for Assured Delivery of transactions limited by Exhibit B amounts, subsequent requests must be received no later than 120 days before commencement of the next BPA operating year. All relevant power contracts must be presented for review no later than the date on which a request for Assured Delivery is made. BPA will not entertain Assured Delivery requests for firm power sales in excess of a utility's Exhibit C maximum.

Section 5. Formula Allocation

(a) Limits On Intertie Capacity Available For Formula Allocation. Generally, BPA will determine Intertie Capacity available for formula Allocations after first taking into account the amount of Intertie Capacity necessary to satisfy requirements of the Administrator's Power Marketing Program, existing transmission contracts listed in Exhibit C, and Assured Delivery contracts executed by BPA pursuant to this policy. However, during Condition 1, BPA will not consider the Assured Delivery contracts subject to mitigation requirements in determining available Intertie capacity. BPA may reduce any allocation, if additional Intertie Capacity is required to minimize revenue losses associated with actions taken to protect fish in the Columbia River drainage basin.

(b) Northwest Scheduling Utility Requirements. BPA will make utilities aware of scheduling requirements before the policy is implemented.

(c) Allocation Methods.

(1) Condition 1

(A) Until December 31, 1988. Intertie Capacity will be allocated pursuant to the Exportable Agreement (BPA Contract No. 14-03-73155), when applicable.

(B) After December 31, 1988. Condition 1 will be in effect when the Federal system is in spill or in likelihood of spill, as determined by BPA. Available Intertie capacity will be allocated pursuant to the following procedure:

(i) Each hour, the maximum Condition 1 allocations for BPA and each Scheduling Utility will be based on the ratio of their respective hydroelectric generating capacities to the Northwest's total hydroelectric generating capacity, multiplied by the available Intertie capacity (the "Hydro Cap"). To the extent that the declarations of some Scheduling Utilities are less than their respective Hydro Caps, BPA will allocate the remainder, pro rata, to itself and to other Scheduling Utilities whose declarations are greater than, or equal to, their respective Hydro Caps. Examples of allocations under Condition 1 are shown in Exhibit A.

(ii) During Condition 1, whenever the Southwest market at BPA's applicable rate is less than the available Intertie capacity, BPA will allocate no more capacity than that market amount.

(iii) In calculating each Scheduling Utility's Hydro Cap, BPA will reduce the hydroelectric generating capacities of individual utilities by any Protected Area decrements determined pursuant to section 7.

(2) Condition 2

When Condition 1 is not in effect, but BPA and Scheduling Utilities declare amounts of energy that exceed available Intertie capacity, Formula Allocations for BPA and each Scheduling Utility will approximate, by hour, the ratio of each declaration to the sum of all declarations, multiplied by the available Intertie capacity. An example of an allocation under Condition 2 is shown in Exhibit A.

(3) Condition 3

When Condition 1 is not in effect and when the total surplus energy declared available by BPA and Scheduling Utilities is less than the total available Intertie Capacity, BPA and Scheduling Utilities' allocations will equal their declarations. The remaining Intertie capacity will be made available to Extraregional Utilities. Examples of the two possible allocation procedures under Condition 3 are shown in Appendix A.

(d) Modified Allocations Upon Commercial Operation Of the Third A.C. Interconnection. When the market power of California Intertie owners is reduced upon commercial operation of the third AC interconnection, BPA will cease allocating individual Intertie capacity amounts to non-Federal utilities during Conditions 2 and 3. Instead, after allocating sufficient capacity to itself, BPA will to the extent practicable make the remaining Intertie Capacity available as a block to Scheduling Utilities, and make any residual amount under Condition 3 available to Extraregional Utilities. However, this provision will not be operative if the Administrator determines that:

(1) even after commercial operation of the third AC, Intertie access continues to be impaired for California utilities presently lacking ownership in the southern portion of the Intertie, or

(2) Southwest utilities utilize some pro rata scheme to allocate energy purchases over the Intertie.

Section 6. Access for Qualified Extraregional Resources

(a) Assured Delivery. Any request for Assured Delivery of power from a Qualified Extraregional Resource would be granted only by contract which, in addition to the Mitigation measures specified in section 4(d)(4)(B), must include benefits to BPA such as increased storage, improved system coordination or operation, or other consideration of value commensurate with the services provided. However, Canadian Extraregional Utilities will not be provided Assured Delivery service until the Administrator has determined that the capability of the Intertie is rated at approximately 7,900 MW. Proposed contracts would be evaluated by BPA and reviewed publicly to determine whether

it would cause substantial interference with the Administrator's Power Marketing Program. An environmental review would also be conducted.

(b) Formula Allocation. Under Condition 3, energy from Canadian Qualified Extraregional Resources will have access to the Intertie to the extent that Intertie Capacity is available in excess of the amount used by BPA, Scheduling Utilities, and energy from U.S. Qualified Extraregional Resources. BPA ~~may~~ provide Qualified Extraregional Resources with some additional Formula Allocation, if the utility owner agrees by contract either to increased participation in the Pacific Northwest's coordinated planning and operation, or to provide other consideration of value, apart from the standard BPA wheeling rate, commensurate with the services provided.

Section 7. Fish and Wildlife Protection

(a) Purpose. Hydroelectric projects constructed in Protected Areas may substantially decrease the effectiveness of, or substantially increase the need for, expenditures and other actions by BPA, under Northwest Power Act section 4(h), to protect, mitigate or enhance fish and wildlife resources. Intertie access will not be provided to facilitate the transmission of power generated by any new hydroelectric projects located in Protected Areas, licensed after the effective date of this policy. ~~Upon expiration of a Federal Power Act license for an existing project located within a Protected Area, BPA will assist the licensee in developing any necessary protective conditions so that the project may continue to qualify for Intertie access.~~

(b) Implementation. Within 60 days following the final decision of the Administrator adopting the Long-Term Intertie Access Policy, BPA will publish in the Federal Register and distribute to interested parties, a list of protected areas on which BPA will accept public comment for an additional 30 day period. Within 30 days of the close of public comment, BPA will publish the initial protected areas list. Exhibit D is a current list of BPA's protected areas. (DELETE ENTIRE OLD SECTION.)

(c) Enforcement. If a Northwest Utility owns, or voluntary acquires, the output from a hydroelectric project in a Protected Area which commences commercial operation after the effective date of this policy, BPA will not grant that utility additional Assured Delivery for up to the nameplate rating, or acquired capacity, of such resource. In addition, that utility's final allocation under condition 3 shall be reduced by the nameplate rating, or acquired capacity, of such resource. (DELETE ENTIRE OLD SECTION.)

Section 8. Other Enforcement Provisions

Whenever the terms of this policy are not being met, BPA will inform the appropriate utility of the nature of the noncompliance and actions that may be taken to achieve compliance. If noncompliance is not corrected within a reasonable period, BPA may impose an appropriate sanction. Sanctions include denial of access for a resource and refusal to accept schedules.

Congress of the United States

House of Representatives

Washington, DC 20515

February 5, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-147
RECEIPT DATE:
FEB 11 1988
AREA: DISTRICT
—
CC: AL-15

James Jura
Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208

Dear Jim,

Much attention has focused in recent months on the enormous economic stakes involved in your forthcoming Intertie Access Policy, which will set rules governing use of the federal transmission pathway between the Pacific Northwest and California. We are sure you need no reminder that the environmental stakes are at least as large, and we know that you will make every effort to ensure that the Intertie does not become a vehicle for damaging Northwest air or water resources. You have taken a promising initial step by offering to coordinate the Policy's fish and wildlife safeguards with the Northwest Power Planning Council's proposed Protected Areas program.

Some have suggested that the Policy needs no fish and wildlife provisions at all, and that such matters should be left exclusively to the Federal Energy Regulatory Commission. But that argument overlooks your and the Northwest Power Planning Council's distinctive mandates under the Northwest Power Act. We agree with the conclusion in the Policy's revised draft (p.14) that "exclusive reliance on FERC intervention may not provide sufficient protection for BPA's fish and wildlife investments." Of course, those investments could be jeopardized by inappropriate hydropower development either within or outside the Columbia River Basin; since anadromous fish all share a common ocean habitat during their life cycles, reductions in out-of-Basin stocks will increase pressure on the Basin's fish runs.

We are confident that the Northwest and California can share the financial benefits of interregional power transfers without sacrificing environmental quality in the process. We look to you to ensure that the Intertie does not become an instrument for environmental damage, either in the construction or operation of power generating facilities.

Sincerely,

PORTLAND CHAPTER
(CHARTERED NOVEMBER 23, 1932)

Izaak Walton League of America, Inc.

DEFENDER OF SOIL, WOODS, WATERS AND WILDLIFE

February 4, 1988

P.O. Box 8896 PORTLAND, OREGON 97207

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: PIP-1-111
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
L (OP)

Also logged:
LTIAP-3-143
Triple Logged:
PMC-2-72
cc: PJI

Bonneville Power Administration
Public Involvement Manager
Box 12999, Portland, OR 97212

Dear Sir:

The Portland Chapter of Izaac Walton League of America, Inc. supports the continuing implementation of provisions of the Northwest Power Planning Act, Section 4H, for anadromous fisheries preservation and enhancement in the Pacific Northwest. Pressure by private power companies for weakening of the rules should be resisted. Potential return of the salmon runs should not be sacrificed to demands for cheap power by electric utilities of Southern California.

In addition, we recommend that the Council should designate protected areas both in and out of the Columbia River Basin. We support the Bonneville Power Administration's to penalize electric utilities that build dams on salmon and steelhead streams.

We strongly disagree with Bonneville Power Administration's decision to discontinue the funding of activities that promote construction of residences and commercial buildings built to model conservation standards.

PORTLAND CHAPTER,
IZAAC WALTON LEAGUE OF AMERICA, INC.

Jeanne Norton

Jeanne Norton, Acting President

4456 53rd Ave. SW
Seattle, WA 98116
February 2, 1988

Subject: Continue strong fish & wildlife protection in the Intertie Access Policy

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-144
RECEIPT DATE:
FEB 08 1988
AREA: DISTRICT
T (OS)

Ms. Donna Gelger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Dear Ms. Gelger:

Please pass on our enthusiasm and support for the Northwest Power Planning Council's "Protected Areas" designations to exclude Western Washington streams from new hydroelectric development.

A proposal to restrict these limits only to the Columbia River Basin would place increased pressure on development of rivers west of the Cascades which all have significant salmon runs that must be preserved. Please resist pressure from the California Congressional delegation, developers and utilities to reduce the "protected area" designations. All rivers west of the Cascades must be protected, including the Snohomish river basin, the specific river basin we are committed to protect.

Again, congratulations once again to the Northwest Power Planning Council for their sensible proposal which will begin to restore salmon runs by protecting existing river basins from further hydroelectric development.

Sincerely,

Ed Schein

Ed & Bonnie Schein: 7 + families
Rod & Evie Schein: owners of 150acres on N.Fork
Ed & Jennie Schein: Skykomish River

Copies to:

Senator Dan Evans
Senator Brock Adams
Congressman Mike Lowry

To Ms. Donna Geiger
Public Involvement Manager
BPA
PO Box 12999
Portland, Or 97212

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # LTIAP-3-145
RECEIPT DATE:
FEB 08 1988
AREA: DISTRICT
T (OS)

Dear Ms. Geiger,

Our Northwest fish runs are a priceless resource. They must be protected at any cost. I support your strong fish and wildlife protection in the "Intertie Access Policy." You should require compliance with "Protected Area" designations both inside and outside the Columbia Basin. I wholeheartedly endorse the BPA's enlightened approach to this issue. Our Northwestern fisheries should not pay the price for California's over consumption and mismanagement.

Thank you,
Ronald Gross
Ronald Gross
Rt 2 Box 540
Twisp, Wa 98856

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # LTIAP-3-146
RECEIPT DATE:
FEB 08 1988
AREA: DISTRICT
T (OS)

RICHARD MURRAY
RT 2 Box 539
TWISP, WA. 98856

Dear Sirs
Greetings

I'm writing to express my continued support for the BPA's protected area designations both inside and outside of the Columbia River Basin. I also support the protection & enhancement of our regional fisheries, with the adoption of the "Intertie Access Policy".

Care for the Earth
- Richard Murray

Bonneville Power Administration

3 February 1988

Hello,

Regarding the proposed B.P.A. protected area management program - the Libby Creek Watershed Association supports this program for the Columbia Basin and coastal streams and rivers. We are working to enhance our watershed and fishery and strongly oppose any development.

We also support the Inter-Tie Policy of not sending power to California.

Joyce Campbell Joyce Campbell
Libby Creek Watershed Association
P.O. Box 247
Carlton, Washington
98814

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-WA-7
RECEIPT DATE:
FEB 08 1988
AREA: DISTRICT
T (OS)

3148 Laurel Road
Longview, WA 98632
4 February 1988
(206) 423-4658

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-WA-8
RECEIPT DATE:
FEB 08 1988
AREA: DISTRICT
T (OS)

Ms. Donna Geiger
Public Involvement Manager, BPA
P.O. Box 12999
Portland, OR 97212

Dear Ms. Geiger,

We strongly support the BPA proposal to deny use of BPA transmission lines to California in cases where the hydro source dam has been built in designated protected areas.

We hope that you will apply this policy to all areas in the BPA jurisdiction, both inside and outside the Columbia River basin.

Coastal streams, so important to both sports and commercial fishermen because of the salmon runs, are in particular need of this protection.

Sincerely yours,
Ruth Deery
Harold Deery
Ruth Deery
Harold Deery

Copy to: Rep. Don Bonker
Senator Dan Evans
Senator Brock Adams

[illegible]
Eugene, OR 97405
Feb. 3, 1988

Dear Ms. Geiger,

Please let me express my support of BPAs proposal to help protect fish and wildlife. As an Oregonian born and raised I'm just now beginning to understand the importance for generations to come (both for humans and wildlife) through protective measures. Your policy seems far-seeing and so important. Once again let me reiterate my firm and optimistic support for this policy.

Thank you.

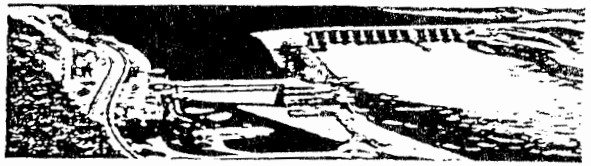
Sincerely,

Sally Stephenson

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-148
RECEIPT DATE:
FEB 08 1988
AREA: DISTRICT
LG (OPS)

cc: PJ

COMMISSIONERS
WILLIAM E. SCOTT, PRESIDENT
ALFRED PELUGRATH, VICE PRESIDENT
JEAN H. LUDWICK, SECRETARY
JAMES R. WALL, ASST. SECRETARY
H. DONALD MAC KINNON, COMMISSIONER
GERALD L. CORP, MANAGER



Public Utility District No. 1 of Chelan County

P. O. BOX 1231 • WENATCHEE, WASHINGTON 98801-0011 • (509) 663-8121

February 4, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-150
RECEIPT DATE:
FEB 08 1988
AREA: DISTRICT
(OPS)

Donna Lou Geiger
Bonneville Power Administration
P. O. Box 3621
Portland, Oregon 97208

Dear Ms. Geiger:

This letter is submitted in response to BPA's request for comments on the proposed Long-Term Intertie Access Policy. We appreciate the difficulties and complexities associated with trying to develop this policy. BPA is to be commended for the efficient and forthright process which has been employed.

The District wishes to further express support for comments being submitted by PNUCC, PPC and PGP. The District has had extensive involvement in the comments being submitted by PGP. Thank you for the opportunity to be involved in this process.

Very truly yours,

Willard D. Fields
Director of Power Operations

The Nature Conservancy

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAD-3-15
RECEIPT DATE:
FEB 0 8 1988
AREA: DISTRICT
T (OS)

February 4, 1988

Ms. Donna Geiger
Public Involvement Manager
BONNEVILLE POWER ADMINISTRATION
P.O. Box 12999
Portland, OR 97212

SUBJECT: INTERTIE ACCESS POLICY
Support Compliance with "Protected Areas" Designations.

Dear Ms. Geiger:

The Nature Conservancy fully endorses the Bonneville Power Administration's plans to support the Northwest Power Planning Council's "Protected Areas" designations. Marketing electrical power on BPA lines from new hydro projects that degrade or destroy anadromous fish spawning habitat would be contrary to the Northwest Power Planning Council's welcome proposal to protect critical fish and wildlife habitat in the Pacific Northwest.

We urge BPA to proceed with its plans to prohibit hydroelectric facilities built in designated "Protection Areas" from gaining access to the Northwest-Southwest Intertie transmission system. We further urge that this policy be extended to all "Protected Areas" designated for fish and wildlife protection, not just those in the Columbia Basin.

Sincerely,

Laura Smith

Laura Smith
Field Representative

cc: Senator Brock Adams
Senator Dan Evans
Congressman Don Bonker
Congressman Rod Chandler
Congressman Norm Dicks
Congressman Tom Foley
Congressman Mike Lowry
Congressman John Miller
Congressman Sid Morrison
Congressman Al Swift

Washington Field Office
1601 Second Avenue, Suite 910, Seattle, Washington 98101
(206) 728-9696

JACK S. WAYLAND
Director

STATE OF WASHINGTON
DEPARTMENT OF WILDLIFE
600 North Capitol Way, GI-11 • Olympia, Washington 98504-0091 • (206) 753-5700

February 4, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAD-3-15
RECEIPT DATE:
FEB 0 9 1988
AREA: DISTRICT
T (OS)

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

Dear Ms. Geiger:

Washington Department of Wildlife (WDW) staff has reviewed the Revised Draft Long-Term Intertie Access Policy and its implications to fish and wildlife. We offer the following comments for consideration by Bonneville Power Administration (BPA).

We commend Bonneville and its staff for the approach taken in this revised draft intertie access policy. It recognizes the potential effects of the policy on fish and wildlife and the investment in these resources under the Northwest Electric Power Planning and Conservation Act (the Act).

We were particularly pleased that Bonneville proposes to prohibit intertie access to new projects located in "Protected Areas". It is important that this policy be consistent with the Act, the Fish and Wildlife Program, and the Regional Energy Plan. This does not prohibit development in Protected Areas but, along with other provisions in the policy, discourages development in them.

We are concerned, however, the statement that, "...BPA's Protected Area designations would cover only the Columbia River Basin" is not consistent with the Act in providing "due consideration...to the protection, mitigation and enhancement of fish and wildlife...and habitat..." In addition, it does not recognize the potential effects of hydropower development on out-of-basin fish and wildlife resources and their habitat that is encouraged by this statement in your policy.

Should the Northwest Power Planning Council (Council) include a similar designation (similar to Protected Areas designation) outside the Columbia Basin, it is imperative that Bonneville's policies be consistent with this designation. Otherwise, there is the probability that there will be a net loss of fish and wildlife in the region in spite of the dollars and efforts spent under the Act, Program, and Plan to protect and restore them. The mandate of the Act to "protect" is not limited to the Columbia Basin.

Bonneville's intention to apply the prohibition for intertie access to existing projects when licenses expire is also commendable, but we are not sure this is appropriate. In the State of Washington recommendations on Protected Areas, we suggested that existing projects should be subject to the normal FERC process. It is not our intent to affect existing projects unless those projects are abandoned or are no longer viable projects.

Thank you for the opportunity to comment on this draft policy. We are looking forward to receiving the Final Long-Term Intertie Access Policy.

Sincerely,

THE DEPARTMENT OF WILDLIFE

Jack C. Howerton
Power Planning Coordinator
Habitat Management Division

JCH:cv

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # LTIAD-3-163
RECEIPT DATE:
FEB 05 1988
AREA: DISTRICT
TICS

February 3, 1988

Ms. Donna Geiger,
Public Involvement Manager,
Bonneville Power Administration,
P.O. Box 12999,
Portland, OR 97212

Dear Ms. Geiger:

The purpose of this letter is to commend the BPA on its' proposal (The Oregonian, December 25, 1987) to require utilities companies to comply with The Northwest Power Planning Council's "Protected Areas" designation. It is my understanding that this proposal would deny access to the BPA intertie lines for transmission of power to the southwestern United States from dams constructed without regard to the protected area status of the rivers upon which the dams are located. The feeling is that this is a positive step toward making Public and Private Utilities more responsible in their planning procedures as well as more responsive to the public's concerns in hydro development.

The only drawback to the proposal is that it is limited to those hydro projects effecting the Columbia Basin. One would hope that there would be an eventual extension of the proposal to include areas west of the Cascades. I refer, specifically, to those rivers which maintain significant populations of natural andromous fish. Furthermore, those rivers, especially those on the Olympic Peninsula, that possess high water quality and/or retain most of their natural characteristics.

In conclusion, one appreciates the involvement of the BPA in conservation issues. Perhaps that involvement will rub off on the Public Utilities. We can always hope, anyway.

Thank You,

David Brown
8514 121st Street Southwest
Tacoma, Washington 98498

SPOKANE CANOE AND KAYAK CLUB INC

P.O. Box 819 • Spokane, WA 99210

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-2-WA
RECEIPT DATE:
FEB 08 1988
AREA: DISTRICT
U (OK)

February 2, 1988

Ms. Donna Geiger
Public Involvement Mgr.
Bonneville Power Administration
P O Box 12999
Portland, OR 97212

Dear Ms. Geiger:

The Spokane Canoe & Kayak Club wishes to express its support for the "Intertie Access Policy" that the Bonneville Power Administration has proposed. Further, we urge the BPA to require compliance with "Protected Area" designations both inside and outside the Columbia River Basin. Our organization believe that this will be a positive step towards protection of fish and wildlife in the basin.

Thank you,

Stan Mrzygod

Stan Mrzygod
President

SM/lm

SIERRA CLUB
Cascade Chapter

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-2-155
RECEIPT DATE:
FEB 08 1988
AREA: DISTRICT
T (OK)

301 22nd Ave. E., #1A
Seattle, WA 98112
February 4, 1988

Ms. Donna Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Dear Ms. Geiger:

The Cascade Chapter of Sierra Club is pleased to be able to comment on BPA's strong protections in its proposed Intertie Access Policy. We think this is a good proposal to uphold the Northwest Power Planning Council's Protected Area Designation. This BPA policy will go a long way toward maintaining and eventually restoring native anadromous fish runs in Washington and neighboring states.

We are currently embarking on a campaign to protect many free-flowing rivers in Washington from dam construction by designating them under the federal Wild and Scenic Rivers Act. We further hope to add several rivers to the State Scenic Rivers System, though such designation has only weak provisions to protect against hydro projects. Due to political realities, however—we cannot designate every mile of every stream, large and small—there will be many smaller fish-bearing streams that will probably not be protected by this federal or state designation. Nevertheless, these smaller streams will still total a large contribution to the fish production capacity of the region. The Sierra Club has always supported maintaining natural fish habitat, in which the fish are part of a natural, productive ecosystem and retain the full genetic complement that is important to the long-term survival of fisheries. Artificial fish production in hatcheries and artificial restoration of fish habitat damaged by human activities are extremely expensive. In hatcheries, too, the long-term survival of extensively manipulated fish stocks cannot be fully guaranteed. Natural stocks in free-flowing streams are more robust and can be used to enhance the survivability of hatchery stocks.

We think your proposal to deny developers access to your transmission facilities in order to sell power to California is entirely appropriate. Our watersheds in

Washington are already extensively developed and are currently providing more than enough power for Washington State. We do not see any need to damage any more of Washington's public water resources to satisfy a booming California market. California has many resources of its own that it could tap if necessary, and it should also institute stronger energy conservation measures to minimize the pressure for additional development.

Our main concern with your proposal is that you also deny transmission rights outside just the Columbia Basin. We fear that if you do not apply your policy to all of the Protected Areas in the State of Washington, hydro developers will put enormous pressure on the river resources outside the basin. They will still need access to the BPA Intertie to sell their power to California. Unless you apply your policy uniformly throughout the region you risk pitting river resources in the Columbia basin against those outside. River systems on the west side of the Cascade Range and on the Olympic Peninsula make a large contribution to the fish production of the region, affecting the livelihoods of commercial and tribal fishermen. Increased damage to fish runs in these areas due to developers' access to the Intertie risks making your protection of the Columbia basin runs moot. We worry that by limiting your policy this way there will be a substantial decline in the overall fish production of the Northwest. An additional concern is that BPA customers may be subsidizing the use of the Intertie by these out-of-basin hydro projects. Will BPA customers have to bear the costs of upgrading the Intertie to handle the loads from the new hydro projects, and will they have to bear even greater costs of fish habitat restoration in the Columbia Basin because fish habitat is being destroyed elsewhere?

In summary, we believe your proposed denial of access to the Intertie is a good one to continue the restoration of fish runs already begun by BPA, the NWPPC, and other agencies, but your proposal will only work if you apply it to hydro development both inside and outside the Columbia Basin. We urge you to apply your mandate as a **regional** agency to solve these region-wide problems.

Thanks for the opportunity to comment. Please let us know BPA's final decisions on this matter.

Sincerely,

Mark Lawler

Mark Lawler
Chair, National Forests Committee

DAVID W. ALLEN M.D.
AMERICAN BOARD OF INTERNAL MEDICINE

RICHARD MINOGUE M.D.
AMERICAN BOARD OF INTERNAL MEDICINE

LA GRANDE CLINIC
A Professional Corporation
P.O. BOX 1047 · 1100 J AVENUE
LA GRANDE, OREGON 97850
PHONE (503) 963-2181

AMERICAN BOARD OF INTERNAL MEDICINE
KATHY PFISTER MINOGUE M.S.N.
ADULT NURSE PRACTITIONER

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-156
RECEIPT DATE:
FEB 08 1988
AREA: DISTRICT
L(OP)

February 3, 1988

Donna Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box12999
Portland, OR 97212

Dear Ms. Geiger:

I am writing to let you know that I support strong fish and wildlife protection in the area of "Intertie Access Policy". I ask the BPA be required to comply with the "protected area designations" both inside and outside the Columbia River Basin. BPA has my support in their efforts in the above named policies. I believe that more dams on the coastal streams could impact salmon runs and increased ocean harvest pressure on all salmon stocks including the Columbian Basin. This would be detrimental to commercial and sport fishing.

Thank you.

Sincerely,

Joseph J. Donofrio, M.D.

JJD/cp

cc: Senator Packwood, Senator Hatfield, Congressman Bob Smith

February 5, 1988

Worden, Mt. 59088

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP 3-157
RECEIPT DATE:
FEB 0 8 1988
AREA: DISTRICT
UM (OKK)

Ms. Donna Geiger
Public Involvement Manager, BPA
P.O. Box 12999
Portland, OR 97212

Dear Ms. Geiger,

I support strong fish and wildlife protection in the Intertie Access Policy. I also feel that compliance should be required with "protected area" designations both inside and outside the Columbia River Basin.

I feel that California should be using better conservation methods, instead of relying on more dams, and more destruction of wildlife in the Northwest.

Sincerely,

Georgia J. Frazier

Georgia J. Frazier

CC: John Melcher
Max Baucus

G. Frazier
RR 1, Box 157
Worden, MT. 59088

Trials Hearings Mediation Negotiation

BISTLINE LAW OFFICE

February 4, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-158
RECEIPT DATE:
FEB 0 8 1988
AREA: DISTRICT
WL (OKK)

Donna Geiger
Public Involvement Manager
Bonneville Power Administration
Post Office 12999
Portland, Oregon 97212

Re: Intertie Access Policy

Dear Ms. Geiger:

I am writing to express my support of the BPA's proposed policy providing strong fish and wildlife protection within the Columbia River Basin. I would like to urge BPA to consider extending its policy to include all "Protected Area" designations both inside and outside of the Columbia River Basin consistent with the Northwest Power Planning Council's proposals.

I am very pleased to see the BPA taking this substantial step towards protecting the resources of the Northwest.

Sincerely,

Bruce S. Bistline

BSB:ss

Copy: Senator Jim McClure
Senator Steve Symms
Representative Richard Stallings
Representative Larry Craig

Bruce S. Bistline

(208) 342-2697
413 West Jefferson, Suite 4 P.O. Box 1442 Boise, Idaho 83701

Amy S. Howe

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # LTIAP-3-199
RECEIPT DATE:
FEB 08 1988
AREA: DISTRICT
WM (OKK)

[redacted]

Feb. 4, 1988

Protect Park Resources

THE COALITION

P. O. Box 422, Hungry Horse, MT 59919

PROMOTING COMPLIANCE WITH ENVIRONMENTAL LAW

Please register strong support for BPA's proposal for adequate fish & wildlife protection in the "Intertie Access Policy". Also, it is very important that BPA require compliance with "Protected Area" designations both in & out of Columbia River Basin. BPA is to be congratulated for a strong position to protect our fishery of the Pacific NW. Do Not allow dam developers to use BPA transmission lines to sell hydro power to Calif. if they build dams in "Protected Areas."

Sincerely, Sharlon Willows
Coordinator of Coalition

FEB 14 1988

To:
Ms. Donna Geiger
Public Involvement Mgr.
Bonneville Power Admin.
POB 12999
Portland, OR 97212

United States Department of the Interior

BUREAU OF RECLAMATION
PACIFIC NORTHWEST REGION
FEDERAL BUILDING & U.S. COURTHOUSE
BOX 043-550 WEST FORT STREET
BOISE, IDAHO 83724-0043

IN REPLY REFER TO: PN 150

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # LTIAP-3-160
RECEIPT DATE:
FEB 09 1988
AREA: DISTRICT
WL (OWL)

FEB - 3 1988

Ms. Donna L. Geiger
Public Involvement Manager - ALP
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212-0999

Dear Ms. Geiger:

The documents you provided by your letter of December 18, 1988, "Issue Alert - The Intertie: Making It Work for All of Us" and "Revised Draft - Long-Term Intertie Access Policy," have been reviewed by appropriate members of our staff in the Pacific Northwest Region. During earlier review opportunities, we provided our comments and concerns regarding the potential impacts of implementation of this policy on the resources within the jurisdiction of the Bureau of Reclamation. We are hopeful that those impacts and the appropriate mitigative measures and/or policy modifications will be presented fully in future environmental and information documents. We have been working with the your office and BPA environmental staff over the last 3 years to achieve that end.

Thank you for the opportunity to review these documents.

Sincerely yours,

Kenneth R Vedde

Acting Regional Director

PUBLIC INVOLVEMENT
LOG #: LTIAP-3-102
RECEIPT DATE:
FEB 08 1988
AREA: DISTRICT
(Jim COCK)

HELLO THERE -

GOOD EFFORT ON BEHALF OF THE B.P.A. TO PROTECT FISH RUNS BY THE "PROTECTED AREAS" DESIGNATIONS. KEEPING DEVELOPERS OR UTILITIES FROM USING THE B.P.A.s POWER LINES TO SELL POWER TO CALIFORNIA WHEN THEY BUILD IN A PROTECTED AREA IS GREAT.

THE COLUMBIA WATERSHED NEED NOT BE FURTHER SACRIFICED TO HYDRO DEVELOPMENT, ESPECIALLY TO SELL TO CALIFORNIA.

HURRAH FOR THE "INTERTIE ACCESS POLICY"

PLEASE, INSTALL THIS SAME PROTECTION FOR RIVERS IN THE N.W. OUTSIDE THE COLUMBIA BASIN, i.e. COASTAL RIVERS.

THANKS

CHARLES NABBOTT
WEST FORK
DARBY, MT. 59829

CANBY UTILITY BOARD
154 N.W. FIRST AVENUE · P.O. BOX 470
CANBY, OREGON 97013
PHONE (503) 266-1156

February 2, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-102
RECEIPT DATE:
FEB 12 1988
AREA: DISTRICT
L (OR)

Mr. Jim Jura, Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

cc: AL-15
J.M. ALG

Dear Jim,

CUB offers the following comments on BPA's proposed Long Term Intertie Access Policy (IAP) based on the understanding that 1) all the cost to BPA of allocating the Intertie for Non-Firm sales by Non-BPA utilities has not been estimated but is thought to be tens of millions of dollars per year (CUB has heard $50 million per year loss discussed) and 2) the cost to BPA of providing Assured Access for Firm sales and season exchanges to Non-BPA utilities is from several million to several tens of millions of dollars per year. We recognize the complexity of this issue and would certainly reconsider our comments if these understandings are in error.

BPA has not explained why it is accepting these additional costs. Unless BPA is required by law to do so or unless there is a offsetting benefit to BPA, the IAP will appear to be driven by political considerations which will undermine confidence in BPA.

CUB is aware of no law requiring BPA to forego revenues in order to enhance sales by generating utilities. The law requiring BPA to use "sound business practices" would seem to preclude BPA from voluntarily accepting such additional costs.

Unlike the DSI variable rate, the IAP does not appear to have any offsetting benefit to BPA. CUB is supportive of "regional cooperation" when it results in win-win solutions but not if it means a one sided transfer of money.

If the additional costs of the IAP are not based on a legal requirement or if it is all loss and no benefit, the message to utilities is that political considerations will affect BPA decisions to the detriment of full requirements customers. Consequently, more "WPAG studies" will be undertaken to "get off" the BPA system in order to insulate (and even benefit) utilities from decisions like the IAP.

CUB does not believe this to be a constructive path for either BPA or CUB. Both organizations need to be supportive of each other. It simply is not clear that the IAP is supportive of Non-Generators.

A further consequence of not having a firm basis for accepting the IAP cost relates to BPA surplus sales. CUB has urged BPA to exercise caution in making long term sales to California or to Northwest IOU's because we are not confident that contractual or even legally required call backs can withstand the political pressures that will resist such call backs. The IAP process seems to illustrate our concern - political, not legal or sound utility practices, are causing BPA to forego tens of millions of dollars per year.

(We have heard the threat that unless BPA accepts these costs, generating utilities will build their own interstate transmission lines which will have severe impacts on BPA revenues. First, BPA should not build "regional cooperation" on a foundation of threats. Second, if it is true that BPA will be adversely affected by third party ownership of interties, BPA should remember this when considering whether to share ownership of the 3rd AC Intertie. Third, CUB believes the threat is hollow because our experience with Oregon siting laws and increased public concerns about electromagnetic radiation leads us to conclude that a new line could not be completed in a timely manner. By the time the line was finished, if ever, the region would be approaching load-resource balance and the justification for a new line would have evaporated.)

The transfer of tens of millions of dollars per year is not equitable. The list of utilities benefiting from the IAP, see appendix B, include those with the lowest rates in the Northwest and Nation.

The list also includes utilities that have their own generation which fluctuates from year to year and is backed up by BPA's system. This service is provided by BPA without charge despite the uncertainty it causes BPA and the increased resources that BPA must provide.

The cost of the IAP threatens conservation, fish and wildlife restoration in the Columbia Basin and repayment to the Federal Treasury. As recently as the "Programs in Perspective" BPA has shown CUB that its budget is fixed largely by repayment of debt and that it has very little discretionary spending. The choices are presented as cuts in conservation, cuts in fish and wildlife, missing a treasury payment or increased rates.

Loss of revenue due to the IAP policy did not show up in any of the BPA issue papers as an option. Future budget discussions should list sources of lost revenue (eg. IAP, water budget, spill).

We believe that conservation, fish and wildlife and treasury repayment are a more compelling set of values than the IAP form of "regional cooperation" which is not equitable and is not required by law.

CUB generally supports BPA's IAP position on Protected Areas, with some modification, because it protects our expenditures on behalf of salmon and steelhead, helps utilities avoid "dry hole" hydro projects, and is less onerous than the alternatives.

CUB and other publicly owned utilities provide BPA with $100 to $150 million per year to benefit fish and wildlife. This is one of our activities that distinguishes Public Power from investor owned utilities and justifies public access to cost based federal power (Preference) - we are better stewards of the natural resources. During the 1980's we will have contributed nearly $1 billion dollars for fish and wildlife restoration. We want to spend our money wisely (but, not "spill" which provides no demonstrable benefit to fish) and protect what we have accomplished.

The IAP would penalize those who build dams in Protected Areas (areas with particular significance to fish and wildlife). Because CUB and other Non-Generators do not have intertie access we are not directly affected by these penalties . However, if others build in these areas our cost of the Fish and Wildlife Program may increase. Especially when the Fish and Wildlife Program has not been overly effective in separating Federal vs Non-Federal impacts and costs.

Protected Areas also provide a "heads up" for risk adverse utilities such as CUB. We simply can't afford a protracted debate about the effects of a hydro project and are well served by early warnings provided by Protected Area designations.

We do believe Protected Areas in the IAP should be limited to the Columbia Basin (BPA does not have responsibilities or investments in fish outside the Basin), to salmon and steelhead (resident fish and wildlife are being restored on an ad hoc basis which is incompatible with a comprehensive approach such as Protected Areas) and to new projects (mitigation for existing projects are established by license conditions and the Fish and Wildlife Program).

With these limitations BPA can use the existing data bases to designate stream reaches supporting salmon and steelhead as Protected Areas even if the NW Power Planning Council does not. We believe that this would be far preferable to alternatives - such as "consistency with the NPPC Program" - which are too broad and create too much uncertainty. Anything less would be incompatible with protecting our investment in salmon and steelhead.

Implicitly, the IAP provides an appropriate distinction between hydro built in Protected Areas for export (or to replace a resource sold out of region with out effective call backs) and those build for NW loads. The IAP properly penalizes utilities that build undesirable hydro for export (or to replace non-recallable resources). On the other hand, if the need exists in the NW the utility will not be seeking intertie access and henceforth will not be penalized by the IAP (unless they sold without call back in which case the IAP penalty is just right - reduced access keeps the resource in the NW). Further, if the need exists in the NW (ie no intertie access is required) the balance of fish and power will be decided by the FERC (Federal Energy Regulatory commission) licensing process.

Summary For the IAP to be equitable to all parties BPA should 1) require full mitigation for its losses and 2) limit Protected Areas to new projects in Columbia Basin stream reaches which support salmon and steelhead.

Very truly yours,

CANBY UTILITY BOARD

Don Godard,
Manager

c.c. Ed Sienkiewicz
John Cameron
Ray Foleen
Terry Mundorf
Tom O'Connor
Lon Peters

Benton Rural Electric Association

402 7th St.—P.O. Box 1150—Phone Area Code 509-786-2913

Prosser, Washington 99350

SERVING IN BENTON AND YAKIMA COUNTIES SINCE 1937

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # LTIAP 3-163
RECEIPT DATE:
FEB 16 1988
AREA: DISTRICT
J (OS)
cc: AL-15

February 11, 1988

Mr. Jim Jura, Administrator
Bonneville Power Administration
P. O. Box 3621
Portland, Oregon 97208

Dear Mr. Jura:

Over the last few years I have been attempting to follow the negotiations on the Intertie Access Policy. I certainly do not understand all the intricacies of the policy, but would like to comment on three general topics.

First of all, and most important, the policy should maximize revenues for B. P. A. B. P. A. has a responsibility to its full requirements customers to formulate a policy based on this premise. B. P. A.'s priority should be to market its own surplus, both firm and non-firm first.

Secondly, the policy should provide non-scheduling utility customers of B. P. A. with access to the intertie. This will provide positive revenue benefits to BPA through reduction of exchange costs.

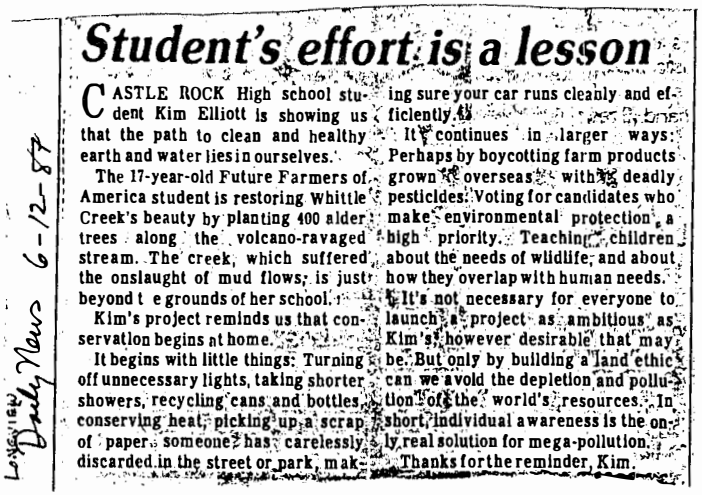
Third, fish and wildlife issues should be weighed carefully by B. P. A. independently of the council. Obviously, B. P. A. should protect its investment in fish and wildlife, but should allow FERC rather than the council to regulate these issues.

Jim, I realize that it will be difficult to please everyone who has an interest in the Intertie Access Policy, but please keep the above considerations in mind when making your decisions.

Sincerely,

RICHARD HEITMAN
Manager

RH:pkrt



Student's effort is a lesson

CASTLE ROCK High school student Kim Elliott is showing us that the path to clean and healthy earth and water lies in ourselves.

The 17-year-old Future Farmers of America student is restoring Whittle Creek's beauty by planting 400 alder trees along the volcano-ravaged stream. The creek, which suffered the onslaught of mud flows, is just beyond the grounds of her school.

Kim's project reminds us that conservation begins at home.

It begins with little things: Turning off unnecessary lights, taking shorter showers, recycling cans and bottles, conserving heat, picking up a scrap of paper someone has carelessly discarded in the street or park, making sure your car runs cleanly and efficiently.

It continues in larger ways: Perhaps by boycotting farm products grown overseas with deadly pesticides. Voting for candidates who make environmental protection a high priority. Teaching children about the needs of wildlife, and about how they overlap with human needs.

It's not necessary for everyone to launch a project as ambitious as Kim's, however desirable that may be. But only by building a land ethic can we avoid the depletion and pollution of the world's resources. In short, individual awareness is the only real solution for mega-pollution.

Thanks for the reminder, Kim.

Longview Daily News 6-12-87

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIMP-3-1(d)
RECEIPT DATE:
FEB 16 1988
AREA: DISTRICT
T (OS)

2-6-88

MARI HOFFMANN-NELSON
4716 PLEASANT HILL RD.
KELSO, WA 98626

Dear BPA, and Ms. Geiger,

Thank you so much for your "Intertie Access Policy". I hope you will continue to require compliance with the "Protected Area" designations of the Columbia River Basin.

We shouldn't allow greedy developers to mine our rivers resources so that they can sell power to California. We have too many dams already that have hurt our salmon runs. We don't need any more.

A prime example of this is the proposed Cowlitz Falls dam by Lewis County PUD. They want to build it mainly to sell the electricity. How unnecessary at this time. Your policy will make it less attractive and will perhaps stop this waste of a beautiful area.

Sincerely,

Mari Hoffman-Nelson

Kelso, Wa. 98626

CC: Sen. Brock Adams
Sen Dan Evans
Hon Don Bonker

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-165
RECEIPT DATE:
FEB 16 1988
AREA: DISTRICT
T (OS)

The Director of Bonneville Power Administration
PO Box 12999
Portland, Oregon 97212,

Will you please insist on the wisdom of your proposal to assist in protecting fish and wildlife habitat in the Northwest by requiring utilities to comply with the Northwest's Power Planning Council's Protected Areas designation in order to protect natural areas from new hydroelectric development.

And it is sound policy to insist also that if a developer or an utility builds a new hydroelectric dam in one of the Protected Areas, it will not be permitted to use BPA's transmission lines to sell electricity to California, and we do hope that there will be no way that new transmission lines can be developed.

Your interest is appreciated as shown by strong support for fish and wildlife protection in the Intertie Access Policy. Protected Area designation should apply to areas both inside and outside of the Columbia Basin, for the use of areas west of the Cascades for building dams would mean impact on salmon runs and ocean harvest pressures.

Thank you for your sincere interest in protecting fish and wildlife and its need for habitat in this nation whose population increased by nearly 18 million since the 1980 USA Census as the need is for birth control if no self control, E. Zahn

295 Fleet Drive, Port Ludlow, WA 98365
February 12, 1988

February 12, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-166
RECEIPT DATE:
FEB 16 1988
AREA: DISTRICT
L (OP)

Ms. Donna Geiger, Public Involvement Manager
Bonneville Power Administration
PO Box 12999
Portland, OR 97212

Dear Ms. Geiger,

I am writing to express my support of the BPA proposal to protect fish and wildlife in our Pacific Northwest. The Intertie Access Proposal is a strong proposal to protect th resources of our home for the future and I am gratified that BPA has shown the responsibility and forethought to begin to act in a manner conducive to the welfare of the Pacific Northwest.

I would like to add that compliance with Protected Area designation both in and outside of the Columbia River basin would greatly strengthen the protective nature of this action. I support such a requirement, and I urge you to do the same. The effort, time and money spent in this work will not protect our resources unless widescale protection is offered to the resource as a whole. If fisheries are considered as a single entity encompassing the Pacific Northwest, it becomes plain that fisheries as a whole should be protected. Impacts on fisheries outside of the Columbia basin could be devastating if only that basin were protected.

Again, I would like to congratulate the BPA for preparing to protect our irreplaceable resources in the face of increasing pressure to degrade them for short-term profit that would go to organizations who would not accept the environmental, financial and lifestyle losses that would accompany them.

Sincerely,

Kate Crockett

Kate Crockett
Po Box 613
Enterprise, OR
97828

cc: Senator Mark O Hatfield
Senator Bob Packwood
Rep. Bob Smith

IDAHO PUBLIC UTILITIES commission

February 12, 1988

CECIL D. ANDRUS, GOVERNOR

STATEHOUSE, BOISE, IDAHO 83720 (208) 334-3143

DEAN J. (JOE) MILLER, PRESIDENT
PERRY SWISHER, COMMISSIONER
RALPH NELSON, COMMISSIONER

FINAL COMMENT OF THE IDAHO PUBLIC UTILITIES COMMISSION ON THE PROPOSED LONG-TERM INTERTIE POLICY OF BONNEVILLE POWER ADMINISTRATION

RECEIVED BY EPA
PUBLIC INVOLVEMENT
LOG #: LTIPP-3-167
RECEIPT DATE:
FEB 16 1988
AREA: DISTRICT
WL (OWL)

Attention: Donna L. Geiger, Public Involvement Manager
Bonneville Power Administration, P.O. Box 12999 Portland, OR 97212

In final comment, the Idaho Public Utilities Commission finds:

(1.) Initial comments by others reinforce our conclusion that using a protected-areas mechanism to reduce access entitlements conflicts with the environmental roles of other agencies and statutory duties of state regulatory commissions, while improperly rewarding the successful resistance of BPA and its preference customers to non-utility new resources licensed by the Federal Energy Regulatory Commission under the Public Utilities Regulatory Policy Act.

(2.) As expressed at length by a municipal utility (Vernon, Calif.), small public and private utilities within and without the region continue to be disadvantaged despite the reassurances all such parties received when Congress and BPA revisited intertie access in the 1960's.

(3.) We acknowledge and compliment your proposed liberalization of access for long-term sales and exchange agreements. Nevertheless, the net position of utilities we regulate, in the contexts of the market and of current Administration deletion of Third Intertie funding, increases the likelihood of utility and/or independent sponsorship of a new inland intertie between the Columbia Basin and the Desert Southwest. Absent a resolution within BPA's intertie policy, pressure on the state regulatory commissions to eventually approve investment in such an alternative has already risen perceptibly.

Dean J. (Joe) Miller, President

Ralph Nelson, Commissioner

Perry Swisher, Commissioner

LOCATED AT 472 WEST WASHINGTON, BOISE, IDAHO

RECEIVED BY EPA
PUBLIC INVOLVEMENT
LOG #: LTIPP-3-168
RECEIPT DATE:
FEB 16 1988
AREA: DISTRICT
T (OS)

February 10, 1988

Ms. Donna Gelger
Public Involvement Manag4r
Bonneville Power Administration
PO Box 12999
Portland, Or 97212

Recent information indicates that you are acting to protect the environment by supporting strong fish and wildlife protection , and you are to be commended for this action.

If the support you propose is limited to the Columbia Basin, this could result in increased pressure to build dams west of the Cascades. More dams on these coastal streams could impact salmon runs and increase ocean harvest pressure on all salmon stocks.

For this reason your "Protected ARea" designations should cover both inside and outside the Columbia River Basin.

I thank you for consideration of a very comprehensive program.

Laura A. Harders

laura A. Harders
10017 SE CArr Road, Renton, Wa 98055

February 9, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-169
RECEIPT DATE:
FEB 16 1988
AREA: DISTRICT
L (OP)

Ms. Donna Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Dear Ms. Geiger:

I am writing to support BPA's policy that protects fish and wildlife through the "Intertie Access Policy". I strongly urge you to comply with the "Protected Area" designations both inside and outside of the Columbia River Basin. I believe this policy should encompass the entire state instead of just the Columbia River drainage.

I sincerely hope that the California lobbying effort will not weaken BPA's policy because we should manage our states resources before providing power to utilities in California.

Thankyou for your time.

Sincerely,
Doug Gresham

Doug Gresham
815 1/2 N 36th St.
Seattle, WA 98103

Feb 10, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-170
RECEIPT DATE:
FEB 16 1988
AREA: DISTRICT
L (OP)

Dear Sirs—

After carefully reviewing the LTAP comments I am disturbed that it appears that it contains so little public input and concern regarding fish and wildlife protection both in and outside of the Columbia River Basin. While I do not fish nor hunt I feel the "Dam in the Bathtub" mentality for power production purposes must not always circumvent fish and wildlife protection.

I Thank you for your consideration.

Sincerely,

Ralph Zessman
5903 S.E. Insley
Portland, OR 97206-5542

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #:LTIAP-3-171
RECEIPT DATE:
FEB 16 1988
AREA: DISTRICT
T (OS)

Feb. 4, 1988

Dear Ms. Geiger:

I'm writing this letter to let you know that I support strong fish and wildlife protection in the "Intertie access Policy." I'd like to ask you to require compliance with "Protected Area" designations both inside and outside of the Columbia River Basin to reduce pressure to build dams west of the Cascades

Thanks

Sincerely,

Mike Smith
12823 Three Lks. Rd
Snohomish, Wash
98290

Skagit System Cooperative
P.O. Box 817 LaConner, WA 98257-0817 Ph. (206) 466-3163

February 2, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #:LTIAP-3-172
RECEIPT DATE:
FEB 16 1988
AREA: DISTRICT
T (OS)

Ms. Donna Geiger, Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Dear Ms. Geiger:

The Skagit System Cooperative is the fisheries management unit for the Swinomish, Upper Skagit, and Sauk-Suiattle Indian tribes. We only recently urged the Northwest Power Planning Council to extend its proposed "protected areas" designation to include the entire region. We did this because over 150 hydropower applications have been filed on streams in the Skagit Basin in recent years, and if protected areas are designated only in the Columbia River system, there will be intense pressure to develop hydro projects in other basins in the region, like the Skagit. The SSC does not oppose all hydroelectric development, but we object to indiscriminate development on anadromous streams that are vital to maintenance of the tribes' treaty fishery. Likewise, we urge the extension of BPA's proposed intertie access policy to include streams like the Skagit, that lie outside the Columbia Basin. In general, we support the proposal to limit access to the Northwest-Southwest Intertie transmission system to new projects that are not developed in designated protected areas. The SSC recognizes that BPA is making large investments in fish restoration in the Columbia River system and that it would be counter-productive to allow intertie access to projects in areas that are designated "protected" by the Northwest Power Planning Council. The Skagit tribes merely request equal consideration in this process and that our streams, our fishery, and our treaty rights not be sacrificed due to narrow scope policy development by the Bonneville Power Administration.

Sincerely

Steve Fransen

Steve Fransen

pc: file

SF:bb;sfltr2dg.f88

DEPARTMENT OF THE ARMY
NORTH PACIFIC DIVISION, CORPS OF ENGINEERS
P.O. BOX 2870
PORTLAND, OREGON 97208-2870

FEB 9 1988

REPLY TO
ATTENTION OF:

Environmental Resources Branch

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # LTIAP-3-173
RECEIPT DATE:
FEB 16 1988
AREA: DISTRICT
L (COP)

cc: Jim Normandeau - ALG

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

Dear Ms. Geiger:

We have reviewed Bonneville Power Administration's (BPA) 15 December 1987 Revised Draft of the Long-Term Intertie Access Policy and have the following comments.

The availability of Firm Energy Load Carrying Capability (FELCC) during the month of August as discussed on page 2 of the subject policy is of concern to us since August FELCC being used by the Coordination Contract Committee before the start of the critical period is limited by the 1928 August hydro capability. August 1928 flow is close to an average August flow for the 50 years of record. The August FELCC which is supported by August 1928 flows will draft Dworshak and Libby in August one out of two years on the average. The Corps of Engineers considers this to be excessive because the recreational season runs through Labor Day. For this reason the Corps of Engineers will recommend adoption of one of the two alternatives shown below:

- Limit the August hydro FELCC to 11,037 mw for August 1-15 and 9,507 mw for August 16-31.

- The August outflows from Libby and Dworshak will be limited to inflow or their respective minimum flows, whichever is greater.

We favor the first alternative above. This will maintain reservoir elevations within acceptable limits in August with the same probability of refill as in July.

We are opposed to the Pacific Northwest Power Planning Council's "Protected Area" concept since we believe there are adequate Federal regulations and laws in existence that, if implemented, would provide the necessary protection to critical habitat areas. We believe that BPA's access criteria would result in foregoing potential hydropower production. The proposed access policy would in effect give BPA influence over all possible hydropower sites in and out of the protected areas. BPA's access policies must make it very clear that

existing and or proposed Corps of Engineers hydropower projects will not be governed by these proposed policies.

We appreciate the opportunity to comment on this draft access policy.

Sincerely,

James R. Fry
Colonel, Corps of Engineers
Deputy Division Engineer

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-174
RECEIPT DATE:
FEB 16 1988
AREA: DISTRICT
T(OS)

February 7, 1988

Ms. Donna Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Dear Ms. Geiger:

I am writing on behalf of my husband, son, and myself in support of the "intertie Access Policy," primarily because it offers protection to fish and wildlife.

A short while ago, I wrote to your agency regarding the "Protected Area" designations, and we want to reaffirm our support of these because we feel they are crucial to the success of the river system which supports rich and abundant living resources of benefit to people with very little yearly input of time on their part, thereby making it a very efficient resource.

Please pass our thoughts on to other decision-makers in the BPA with our thanks for their enlightened planning efforts. We hope these proposals will soon be formalized and implemented.

Thank you.

Sincerely,

Nancy and Jim Kroening
3711 West Tilden Street
Seattle, WA 98199

2/8/88

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-175
RECEIPT DATE:
FEB 16 1988
AREA: DISTRICT
T(OS)

TO: Jim Jura
BPA

Re: Comments on BPA - Intertie Access Policy

from: Joan Edwards, Chair Energy Committee, Cascade Chapter, Sierra Club. cc: AL-15

The Cascade Chapter supports BPA's proposal to protect fish & wildlife in the Columbia Basin.

However, we hope you will support protection outside the Columbia Basin as well. If applied only to the Basin, pressure to build dams on every stream west of the Cascades would increase.

It would be especially sad if Canada proceeds to dam every major river, with no regard for fish & wildlife protection.

Joan Edwards
9420 N.E. 14th Street
Bellevue, WA 98004

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-176
RECEIPT DATE:
FEB 16 1988
AREA: DISTRICT
I (OR)

Feb. 8, 1988

Ms. Donna Geiger
Public Involvement Manager
Bonneville Power Admin.
P.O. Box 12999
Portland, OR 97212

Dear Ms Geiger,

I am writing in support of the Protected Areas Designations and urge that the B.P.A require compliance both inside and outside the Columbia River Basin.

Salmon runs are now in serious danger along with other wildlife and plants that live in the riparian areas.

Denying access to transmission lines to violators is an important step (& necessary) in carrying out sound policies. Please don't let California Utilities change the policy. Thank you.

Sincerely
Linda Meister
316 E Pine Elma, WA. 98541

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-177
RECEIPT DATE:
FEB 16 1988
AREA: DISTRICT
P-3

Feb. 8, 1988

Dear Mr. Jura,

This letter concerns the proposed Long-Term Intertie Access Policy. Extensive environmental safeguards must be incorporated into the BPA's comprehensive rules. Much damage has already been done to Northwest rivers, habitat, and anadromous fisheries. This geographical area must not become the answer to California's energy needs. Other alternatives exist including conservation and non-destructive renewable energy.

Specific protection for inclusion in the Long-Term Intertie Access Policy protection for rivers outside (and otherwise inside) the Columbia Basin and investing power export revenues in energy conservation. The BPA has a responsibility to protect the environment now that so much has been lost.

Sincerely,

Scott Weston
79 Burgos Ct.
San Ramon, CA
94583



HAROLD C. MILES-CHAIRMAN, ENERGY & NATURAL RESOURCES COMMITTEE

IDAHO CONSUMER AFFAIRS, INC

AFFILIATE OF CONSUMER FEDERATION OF AMERICA

316 Fifteenth Avenue South, Nampa, Idaho 83651

TELEPHONE 208 466/4152

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG LTIAP 3-178
RECD
FEB 18 1988
AREA: DISTRICT
WL (OWL)

February 16, 1988

BONNEVILLE POWER ADMINISTRATION
COMMENTS OF IDAHO CONSUMER AFFAIRS, INC.
REVISED DRAFT LONG-TERM INTERTIE ACCESS POLICY (LTIAP)

Idaho Consumer Affairs, Inc. (ICA) appreciates the opportunity to submit comments on the revised LTIAP of general concern to us.

1. Assured delivery sales by BPA should not limit the possibility of BPA's serving the Firm Loads of future New Preference Customers or its present Preference Customers, for that matter.

2. BPA should be wary in allowing IOU's to purchase Surplus Firm BPA power to serve these IOU's Northwest loads if these purchasing IOU's in turn sell their Firm Power to Southwest Utilities at a higher price.

3. BPA must protect its anadromous fishery enhancement investment by regulating stream flows and reservoir releases and not making Firm sales to the Southwest that will force it to purchase additional generating capacity to meet these contract demands to the detriment of Northwest fish & wildlife, especially anadromous and resident fish.

4. BPA needs the ability to allocate transmission capacity according to the Southwest market size so as to not jepordize BPA's own markets reliability and financial responsibility to repay its Federal treasury obligations.

5. Hydro caps for utilities need to be adopted in order to protect fish & wildlife in established Protected Areas.

6. BPA should prohibit intertie transmission access from new Hydro Projects licensed by FERC in Protected Areas designated by BPA and the Northwest Power Planning Council.

7. BPA and the Northwest Power Planning Council should reach an immediate understanding on specific Protected Areas and Sites so an united front can be presented to FERC and Hydro developers as to which areas and sites are actually protected from further hydro development.

8. Violators of Protected Areas will disqualify a utility and developer from having access to BPA's transmission lines.

Specific additions to the Revised Draft are:

1. On page 4 Section 3 (c) add another item (5) to read. "BPA's ability to serve New Preference Customers' load will not be impaired."

Comments of Idaho Consumer Affairs, Inc. to BPA: Revised Draft Long-Term Access Policy. February 16, 1988.

2. On page 5 ii Future Changes: at the end of the last sentence change period to comma and add: "at a rate equal to that received by the purchasing utility less 10% commission."

3. On page 6 (4) Mitigation (A) Firm Sales and Seasonal Exchange Deliveries. At the end of the paragraph add a new sentence to read. "BPA power should not be made available to serve Long-Term contracts at rates which could prove detrimental to BPA's financial best interests."

We adopt by reference the February 5, 1988 letter by seven Northwest Congressmen to BPA administrator Jim Jura, as reported in the February 15, 1988 issue of the Northwest Conservation Act "REPORT", which states, quote, "We know that you will make every effort to ensure that the Intertie does n ot become a vehicle for damaging Northwest air or water resources. You have taken a promising initial step by offering to coordinate the Policy's fish and wildlife safeguards with the Northwest Power Planning Council's proposed Protected Areas program", endquote.

Respectfully submitted,

IDAHO CONSUMER AFFAIRS, INC.

Harold C. Miles

Harold C. Miles-Chairman
Energy and Natural Resources Committee

cc: Interested Parties

Sharon L. Nelson, Chairman
Richard D. Casad, Commissioner
A. J. "Bud" Pardini, Commissioner

STATE OF WASHINGTON

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

1300 S. Evergreen Park Dr. S.W. • Olympia, Washington 98504-8002 • (206) 753-6423 • (SCAN) 234-6423

February 17, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-317
RECEIPT DATE:
FEB 18 1988
AREA: DISTRICT
T (OS)

Ms. Jo Ann Scott
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

Dear Ms. Scott:

The Washington Utilities and Transportation Commission (WUTC) is pleased to submit these final comments on BPA's Revised Draft Long-Term Intertie Access Policy (DIAP). These comments are quite similar to the ones in our initial letter of February 4, 1988. Our comments are on two areas of the DIAP: Assured Delivery, and Fish and Wildlife.

Assured Delivery: The Importance of Seasonal Exchanges

As we noted in January of last year, the Commission's interest in the Long Term Intertie Access Policy is linked primarily to our preference for policies that promote the efficient use of the region's existing electric capacity and energy and result in fair treatment for all ratepayers. We believe that one goal of this policy should be to shape and extend the current surplus for the maximum benefit of ratepayers in the Northwest today and in the future. Seasonal exchanges between the winter-peaking Northwest and the summer-peaking Southwest are an important way to achieve this goal.

It is also our position that an Intertie policy must reflect broad public policy. This means that Bonneville must balance the revenues that it obtains from using the Intertie with its obligations as caretaker of a regional resource. It is our belief that the Congress would view seasonal exchanges of power to be in the public interest. We believe that Congress gave BPA authority over the Intertie with this broad public purpose in mind. In particular, we conclude that Congress authorized the intertie with the notion that seasonal exchanges between the two regions are in everyone's best interest.

We believe that it would be a costly error for Northwest ratepayers if, because of an overly-restrictive Intertie Access Policy, non-federal utilities were forced to build a separate line to the Southwest in order to consummate seasonal exchange transactions. There has to be a better regional solution.

In this regard, we were pleased to see that BPA's revised DIAP has explicitly recognized seasonal exchanges. By allowing seasonal exchanges by non-federal utilities as a part of the 800 MW of Intertie capacity allocated for assured delivery, BPA will help the region to avoid the costs of expensive new resources.

We recognize that this move may result in lost revenues for BPA. However, as Bonneville and others have consistently pointed out, there is no reliable way of estimating how much or how little impact this allocation will have on BPA's revenues. Only time will tell. In addition, and just as important, if a reasonable method of mitigating BPA for any lost revenues can be developed, then BPA should be willing to consider increasing the 800 MW figure if there are additional demands for seasonal exchanges.

During the public meetings on the DIAP there was some discussion of a mitigation strategy that included a fixed price per kw. Our principal concern with this approach is that we think that any such price must be cost-based. That is, the price must be based on some reasonable estimate of the revenue losses expected by BPA, due to seasonal exchanges. If this fixed-price approach is adopted, then there must also be some method set up to revise the price as BPA moves from a surplus to a deficit condition, or as new intertie capacity is added.

Therefore, we would like to see a provision in the final policy that commits Bonneville to increasing the allocation for seasonal exchanges if the impacts on the agency's revenue are found to be minimal, or if the impacts can be successfully mitigated. We would suggest provisions be added to amend the 800 MW number without the need for development of a full, new policy.

Finally, we are also concerned with the provision in the DIAP that requires a utility to use all of its own transmission capacity before being allowed a share of the BPA lines. There may be situations where this restriction would unnecessarily

limit cost-effective seasonal exchanges. A utility could own, but not use, part of a line to one market, and then find a partner for a seasonal exchange in another market for which it had no line. In this case, we think that the utility should not be denied the ability to consummate the seasonal exchange just because its own unused transmission line did not run to the other utility. We urge BPA either to change this provision of the DIAP, or to interpret this section in a flexible manner.

Fish & Wildlife: "Protect, Mitigate, and Enhance" the Resource

As Bonneville makes clear in documents supporting its DIAP, the agency has a responsibility under the Regional Power Act to see that access to transmission over the intertie does not create incentives for the construction of new hydro facilities in environmentally sensitive areas.

It is the policy of both the federal and state governments, reflected in numerous statutes, regulations and programs, to rebuild our region's anadromous fishery. It is appropriate for Bonneville to make certain that its Intertie policy does not work at cross purposes with this established policy.

In discussions on the draft policy, Northwest utilities expressed concern over BPA's proposal to reduce Intertie access for utilities who acquired or built hydro resources in "protected areas." In particular, utilities felt that PURPA rules might force them to purchase power from such a resource, with the result that they would be penalized for actions beyond their control.

However, it is our view that revenue losses associated with reduced access to the Intertie would lower the avoided cost that a utility would pay for a hydro resource developed in a protected area. We would take the "total system" approach to calculating avoided costs and recognize that any hydro resource developed in a protected area would result in a loss of benefits (for non-firm sales, seasonal exchanges, and other uses) associated with use of the Intertie. As a regulatory agency, our response to BPA's proposed policy would be to adjust the avoided costs to reflect these lost benefits. We believe this will result in a limitation of the resources that would be developed in "protected areas".

Thank you for this opportunity to comment on your Draft Intertie Access Policy.

Sincerely,

Sharon L. Nelson
Chairman

Richard D. Casad
Commissioner

A. E. Pardini
Commissioner

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP 3-180
RECEIPT DATE:
FEB 18 1988
AREA: DISTRICT
P-3

Natural Resources Defense Council

90 New Montgomery
San Francisco, CA 94105
415 777-0220

NRDC'S REBUTTAL COMMENTS ON
BPA'S REVISED DRAFT OF ITS
LONG-TERM INTERTIE ACCESS POLICY

By Ralph Cavanagh

February 17, 1988

We cherish the hope that these may be NRDC's last Intertie Access Policy comments of the twentieth century. We begin with a review of other commentators' responses to issues addressed in NRDC's February 4 submission, and conclude with answers to the questions posed by BPA in its letter of February 11, 1988.

I. Review of Responses to NRDC Proposals

In its reactions to BPA's proposed Long-Term Intertie Access Policy, NRDC has sought improvements of four kinds: (1) expanded fish and wildlife coverage; (2) guidelines to utilities for how to structure environmentally benign long-term sales, in order to avoid time-consuming NEPA reviews; (3) identification of mechanisms through which Northwest utilities could participate in transfers by developing conservation resources; and (4) changing export-linked operation of coal-fired plants to reduce environmental and economic costs. These points were made first in a widely circulated paper dated January 8, 1988, and repeated at BPA's public meetings of January 12 and January 20, 1988.

The last three of these four proposals went unchallenged by any of the 70-odd parties that filed initial comments on BPA's proposed Policy. The silence of the utility community, while not to be equated with consent, is reassuring in light of repeated and public NRDC requests for objections or criticisms if any could be raised.[1] We also take heart from the interest of Mason PUD No. 3 and the Western Public Agencies Group in using the Intertie to promote conservation investments. And we note the affirmations of public and some utility support for BPA's fish and wildlife protection proposals, supplemented by seven Northwest Congressmen's insistence on strong environmental safeguards in the final Policy.[2]

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[1]In particular, for reasons that participants in the January 12 meeting will recall, it is our contention that Merrill S. Shultz now owes the Natural Resources Defense Council twenty five cents in U.S. funds, given his inability to say anything unkind about these proposals in voluminous comments that have something unkind to say about every other imaginable Intertie issue.

[2]See Western Public Agencies Group's Comments, February 5, 1988, at 22; Mason County PUD Comments, February 1, 1988, at 1-2; Seattle City Light Comments of February 5, 1988, at 3 ("we understand and support the potential for reducing access to the

A few commentators took strong issue with the Policy's fish and wildlife safeguards and our proposals for expanding their scope. NRDC's February 4 comments anticipated and responded to virtually all of these concerns, and we dare to hope for a change of heart by at least some of the critics. Surely Dan Ogden of the Public Power Council will be comforted by the realization that the Protected Areas Program is not the Northwest Power Planning Council's exclusive product and province, but instead represents a collaborative effort of BPA, the Council, and numerous other agencies.[3] Surely Randy Hardy of Seattle City Light will reconsider his unexplained opposition to extension of Protected Areas outside the Columbia River Basin, when he realizes that his goal of "protecting BPA's investment in fish and wildlife protection" cannot be realized if out-of-Basin development damages the region's intertwined anadromous fishery.[4]

Puget Power's and Washington Water Power's doubts about BPA's authority to protect the environment will be assuaged if these utilities will consult the National Environmental Policy Act (NEPA), a federal statute of some modest historical consequence that appears to be missing from libraries in Bellevue and Spokane.[5] As to Puget's suggestion that the Ninth Circuit

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Intertie if new hydroelectric resources are developed in environmentally sensitive (Protected Areas) locations"); Letter to Jim Jura from Hons. Les AuCoin, Don Bonker, Peter DeFazio, Mike Lowry, John Miller, Al Swift, and Ron Wyden, February 5, 1988.

[3]Compare Public Power Council Comments, February 5, 1988, at 7 ("PPC is concerned about the apparent dependence of BPA's proposed Policy on deliberations of the Regional Council") with NRDC Comments, February 4, 1988, at 6. Collaborators in the Protected Areas database included, in addition to BPA and Council staff, representatives of state and federal fish and wildlife agencies, tribes, BPA, the Corps of Engineers, the Bureau of Reclamation, and federal land management agencies. And it was BPA, not the Council, that funded the effort.

[4]Compare Seattle City Light Comments, February 5, 1988, at 2-3 (contending, without analysis or support, that "Protected Area designations should be limited to new hydroelectric resources in the Columbia River Basin") with NRDC's February 4, 1988 Comments at 5 & Comments of the National Marine Fisheries Service, February 5, 1988, at 2-3 ("Unless the IAP is extended to protected areas outside the Columbia, BPA efforts on behalf of Columbia River stocks ultimately could be impaired if increased harvest on these stocks occurs as Puget Sound and coastal stocks suffer declines").

[5]Compare Puget Power's February 5, 1988 comments at 9-11 & Washington Water Power's February 4, 1988 comments at 16-18 with NRDC's February 4, 1988 comments at 5.

would frown on barring environmentally destructive resources from the Intertie,[6] one of the Court's recent holdings is particularly enlightening:

> [The California Energy Commission] argues that [federal law] mandates [Intertie] access to all new sources regardless of environmental impact. The legislative history of the subsequently enacted Regional Act makes clear, however, that environmental concerns are to be given a heightened priority and that the Regional Act "creates a new obligation on the region, the BPA, and other Federal agencies to protect, mitigate and enhance fish and wildlife" . . . The Regional Act's focus on preservation and conservation modifies BPA's preexisting directives emphasizing widespread use of energy, sound business principles, and the lowest rates possible.

California Energy Commission v. Bonneville Power Administration, 831 F.2d 1467, 1476 (9th Cir. 1987). This precedent renders frivolous any claim that BPA lacks statutory authority to exclude resources from the Intertie on environmental grounds.

II. BPA's February 11 Letter

Two environmental issues are raised in BPA's February 11, 1988 request for additional comments. The first involves a question that is treated at length in NRDC's February 4, 1988 letter: should Intertie penalties be applied to utilities that are compelled under PURPA to acquire power from hydro in Protected Areas? And does the Washington UTC's lucid treatment of this issue largely resolve the problem?

We agree with the Washington regulators that states can and should adjust downward PURPA's "avoided cost" payments to reflect the unavailability of Intertie markets to hydropower in Protected Areas. We also reaffirm our February 4 view that Intertie sanctions need not be imposed on purchasers of hydropower constructed in response to these adjusted avoided costs, because -- given the adjustment -- it would be clear that export considerations did not influence the decision to build the facility.

Some have called this a paradox: state regulators are reflecting in "avoided costs" a penalty that will not in fact be imposed if a facility is built. But the "penalty" is simply an adjustment reflecting the unavailability of Intertie access for hydropower in Protected Areas; once the adjustment has been made, Bonneville has no further need for concern about a possible relationship between the Intertie and the project's economics. If the adjustment to avoided costs were not made, that concern would remain alive, and a penalty would be appropriate, reflecting -- in the words of BPA's February 11 letter -- the

[6]See Puget Power's February 5, 1988 Comments, at 11.

state's "determina[tion] that state ratepayers are better off with protected area resources, even at the expense of a decrement under the IAP." The bottom line, which should reassure the utilities, is that no Intertie penalty would be assessed for involuntary acquisitions of PURPA resources, provided that avoided costs had been adjusted to remove export considerations from the decision to build.

BPA's second inquiry requests further clarification of the Northwest Power Planning Council's recommendation that Intertie access be denied to resources that do not comply with the Council's fish and wildlife program. NRDC respectfully suggests that the clarification of another agency's proposal is the proper prerogative of that agency; we defer on these issues to the Council itself.

ICP INTERCOMPANY POOL

TELEPHONE 509/489-0500
P.O. BOX 3727
SPOKANE, WASHINGTON 99220

February 18, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LT IAP 3-181
RECEIPT DATE:
FEB 19 1988
AREA: DISTRICT
U (OK)

Ms. Jo Ann Scott
Public Involvement Manager
Bonneville Power Administration
P. O. Box 12999
Portland, OR 97208

Re: Proposed Long-Term
Intertie Access Policy

Dear Ms. Scott:

This is in response to Bonneville's request for cross-comment on the comments submitted by others prior to February 6, 1988, regarding Bonneville's proposed Long-Term Intertie Access policy, dated December 15, 1987. I will confine these remarks to the comments on the proposed Fish-and-Wildlife provisions of the Policy submitted by Morris Brusett, NWPPC Chairman, and Lorraine Bodi, NOAA, as referenced by those included in the letter to Interested Parties, February 11, 1988, from John Cameron, BPA. There has not been time for me to consult with the ICP companies on these comments; they should be read as mine alone.

Mr. Brusett says that the Council expresses no opinion on the outcome of its decisions in the issue of protected areas, and it neither accepts nor rejects its staff's proposal. He says that the Council has not determined whether it is appropriate to establish protected areas outside the Columbia Basin. However, he thinks that, if the Council adopts some kind of protected-area provisions, Bonneville should duplicate the Council's structure in

the IAP--except that Bonneville should include protected areas outside the Columbia Basin, even if the Council doesn't.

I had thought that a major difference between BPA's and the Council staff's proposals was in the treatment of existing projects. My impression was that the Council's proposal exempted existing projects from protected-area sanctions, but that BPA's was intended to affect relicensing of such plants. It now appears from Mr. Brusett's and Mr. Cameron's letters that the Council expects continued access for existing plants to be at risk not only at the time of relicensing, but at any time the plant or its operation is deemed not to be consistent with F&W Program. This could result from a change in the Program just as well as from a change in plant status. It seems that the only difference between the two proposals, after all, is that the Council's does not require "a special procedure" to examine existing plants' continued access. And it is clear that, although the Council and Bonneville might be in disagreement about the details of the triggering criteria, the Council does support BPA's proposal to limit new access, and to reduce established access, to the Intertie on fish-and-wildlife grounds.

Even after more than four years of active discussion of this issue, I am still startled by professed public servants carelessly and casually musing about adopting catastrophically confiscatory procedures. The pressure being exerted on both Bonneville and the Council to take unrestricted action in the name of fish-and-wildlife benefits is apparent from the bundle of comments received by Bonneville earlier this month. However, I can only urge, once again, both agencies to be mindful of the damage to which they would expose people in adopting either the Council's or Bonneville's proposal--neither of which, in my opinion, will do anything significant for fish. I hope, too, that Bonneville will not take seriously the Council's praise of BPA's enhancing regional cooperation through access for seasonal exchanges, when that commendation is coupled with proposals for loss of access which

will practically insure that no such exchanges will take place.

Mr. Cameron discusses the concerns that utilities have expressed with regard to involuntary acquisitions of protected-area resources under PURPA, and he quotes from the comments of the Washington Utilities and Transportation Commission to show that the public service commissions have the discretion to take loss of Intertie access into account in setting Avoided Costs. We have never denied that they have such discretion. Bonneville is simply proposing to hold the investor-owned utilities hostage against its demands on the commissions. Bonneville proposes to shoot the hostages unless the commissions do what BPA wishes, and if the hostages are shot, it will be the commissions' fault. Mr. Cameron assures the hostages that they shouldn't worry about the guns pointed at their heads, because the commissions have the discretion to capitulate to Bonneville's demands. This assurance cannot be expected to provide much comfort to the hostages, and I can certainly understand the Idaho PUC's comments about BPA's proposing to make them the target of the hostage ploy. The fact is that there is no assurance that the commissions will use their discretion in the manner suggested by the WUTC and, even if the present commissions do, that future commission will continue to do so. Furthermore, even if Northwest utilities could be sufficiently confident of their commission's concern for their customers so that they could depend on firm contracts with California, the California utilities would have no such basis for confidence--a hostage, regardless of his own expectations for continued viability, will have a hard time finding anyone willing to sign long-term contracts with him.

F. Lorraine Bodi, Staff Attorney for NOAA, suggests in her comments that, largely because of ECPA's new environmental limitations on licensing of projects under PURPA, the utilities' concerns about mandated acquisition of PURPA projects are exaggerated; thus, she says, "PURPA should pose no impediment to the adoption of the revised IAP." It is time, having come full circle, for a reminder that it was primarily Bonneville's and the Council's fears of PURPA that compelled them to promote F&W language in the IAP in the first place. Since late 1983, I have been told repeatedly both by Council members and by BPA staff that the target of the F&W language they were currently advocating was independently developed Northwest hydro whose construction depends on the El Dorado of California Avoided Costs (which, by the way, I can assure you the Northwest utilities do not favor any more than do the two reference agencies). But, the utilities said, the provisions which prevent PURPA projects from being built in the Northwest for California markets will devastate any Northwest utility which might be forced to acquire the output of a PURPA project based on its own Avoided Cost. Now we're told that we don't need to worry about anti-PURPA language, because ECPA will keep bad projects from being built under PURPA. I submit that if Ms. Bodi's views about the efficacy of ECPA are correct, and I believe they are, the logical conclusion is that ECPA now provides the region precisely the protection which originally was intended by the IAP fish-and-wildlife provision, but without the harmful side effects, and that language may now safely be removed from the IAP.

As it bears on non-Federal projects, the region now has a solidly established NWPPC Fish and Wildlife Program, which FERC is statutorily obligated to take into account in both licensing and relicensing. In addition, the new Electric Consumer Protection Act adds new environmental considerations to the licensing and relicensing of all non-Federal projects, including independently developed projects under PURPA. Along with other Federal, State and local requirements, these are appropriate and effective means for insuring full consideration of real fish-and-wildlife concerns. Adding another tier of ostensible protection, which would make the Administrator of a Federal power marketing agency the arbiter of environmental performance, through a transmission access policy and implemented by way of uncompensated confiscation is wrong for a number of reasons. At best, the increment of real

fish-and-wildlife protection it would add is trivial, but its potential for stifling regionally beneficial transactions is enormous--and its reshaping of "institutional roles" in the Northwest will leave a lasting and regrettable legacy.

As I indicated earlier, Bonneville is obviously under great pressure to include fish-and-wildlife provisions in every action, decision and policy it makes--even from Congressmen who apparently have little faith in the protective devices which they themselves created. I hope Bonneville will have the sense, and courage, to be objective in this matter despite that pressure.

Sincerely yours,

Merrill S. Schultz

cc: ICP Committee, L&A
AL Wright, PNUCC
Morris Brusett, NWPPC

TRANSMISSION AGENCY OF NORTHERN CALIFORNIA
P.O. Box 661030, Sacramento, CA 95866 (916) 924-1196

February 17, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-182
RECEIPT DATE:
FEB 19 1988
AREA: DISTRICT
P-3

Ms. Teresa Cunningham Byrnes - PGC
Acting Public Involvement Manager
Bonneville Power Administration
P. O. Box 12999
Portland, OR 97212

Subject: Long-Term Intertie Access Policy

Dear Ms. Cunningham Byrnes:

As a major Participant in the California-Oregon Transmission Project (COTP), the Transmission Agency of Northern California (TANC) has a great interest in the development of the Long-Term Intertie Access Policy (LTIAP) by the Bonneville Power Administration (BPA). The provisions of this policy will significantly impact the ability of TANC's fifteen public and municipal utility members to enter into mutually beneficial power transactions.

BPA is to be commended for its sincere efforts over the last year in the development of this policy. TANC also appreciates the willingness and the flexibility of BPA and its staff in attempting to increase everyone's level of understanding about the policy.

As TANC has pointed out in previous comments, we are sensitive to BPA's need for a LTIAP; however, we continue to have concerns with several areas of the policy as the following comments will explain. For clarity of presentation, we have divided our comments into sections which approximate the order of the issues in the policy and the order of discussion topics at the recent public meetings.

Assured Delivery for Intertie Access

TANC suggests allocating access to individual Pacific Northwest utilities on the basis of each utility's average firm surplus and summer surplus. By basing each utility's eligibility for Assured Delivery on its surplus, BPA will avoid creating a gold rush situation where utilities may find themselves hastily entering into transactions simply for the sake of reserving space on the Intertie.

An additional reason for basing access on a utility's firm and summer surplus which is somewhat related to that previously mentioned, is the greater stability created by having an identifiable quantity which utilities could use in the development of bilateral transactions.

TANC has pointed out in previous comments that the 800 MW limit for Assured Delivery of firm sales and seasonal exchanges is insufficient. TANC again encourages BPA to assess more accurately the potential surplus as we believe a significant amount of surplus firm resources and associated utilities who probably desire Intertie access have been excluded from the development of Exhibit B of the LTIAP.

BPA has expressed its concern that increases in the level of Assured Delivery may adversely affect the Administrator's Power Marketing program. When the COTP is available for commercial operation and Intertie transfer capacity to California increases, BPA should commit to a specific increase in Assured Delivery.

The policy should provide Assured Delivery for a variety of exchanges in addition to seasonal exchanges. TANC recommends that BPA include provisions in the policy for capacity-energy exchanges, peaking capacity sales, straight energy sales, and other reasonably foreseeable types of transactions in addition to seasonal exchanges and firm power sales. By not providing for other types of transactions, utilities will be discouraged from engaging in potentially mutually beneficial arrangements of the type which have been conducted on the Intertie since its commercial operation date.

Mitigation

We encourage BPA to include in the final policy a reasonable form of operational mitigation such as the model provided by the Washington Water Power Company - Southern California Edison contract, wherein energy is purchased from BPA when the Intertie allocation is less than the required capacity, in place of the mitigation provisions of the revised draft LTIAP such as the requirements for no "cash out" on exchanges and required delivery at COB/NOB. Prerequisites such as requiring no "cash out" provisions in an exchange contract in order to qualify for Assured Delivery could create a significant burden to some of TANC's members who have minimal amounts of surplus generation at times.

Case-by-case mitigation as in the draft policy should also be retained as an option in addition to the other options mentioned above. We are reasonably confident that Intertie transactions offering benefits to BPA, as well as the other

parties involved, can be developed and BPA should avail themselves of that opportunity through case-by-case mitigation.

Formula Allocation

BPA proposed in the original draft policy to allocate Intertie capacity based on the size of the California market when the Intertie is in Condition 1. Recently, in the course of the public sessions, BPA offered an alternative proposal under which access would be allocated based on the entire available Intertie capacity rather than the California market. The condition for this proposal was that if BPA were unable to sell its share based on an assessment of the available market, then future BPA allocations would be adjusted to allow BPA access to a greater percentage of the Intertie, and thus create a sort of rolling BPA allocation. TANC supports this concept as it appears to allow a form of compensation to BPA, reduces mitigation, and therefore fulfills a BPA first priority.

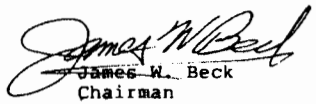
TANC encourages BPA not to include in the policy a provision such as has been suggested by other California utilities, which would allow or provide for a reassessment of the policy if some type of uniform share-the-savings rate for non-firm power sales or other types of power sales were to be developed. TANC does not agree with the suggestion put forward by those utilities that the development of a share-the-savings rate is relevant to an allocation process for Intertie capability. The concept of developing a share-the-savings rate separate from the LTIAP seems reasonable. Our concern is that if a share-the-savings concept were developed and coupled with Intertie access on the basis of matching lowest incremental cost power in the Northwest with highest decremental cost utilities in the Southwest in an effort to maximize benefits, then utilities in the Southwest with lower decremental costs such as TANC's members would risk not being able to access their own share of the Intertie. BPA should consider very carefully proposals of this sort which come at a time when changes in the pattern of Intertie ownership in California are imminent.

During the January 27 meeting, BPA presented a proposal which would eliminate the hydro cap and instead use another figure which represents each individual utilities total surplus (hydro and thermal). TANC supports this alternative as it more accurately reflects the Northwest operating environment. In other words, when the Northwest is at or near spill (Condition 1) there will be base loaded thermal units operating which will be contributing to the surplus condition as well as hydro. The utilities operating those units should be allowed access to the Intertie in Condition 1.

Conclusion

The TANC members look forward to an opportunity to conduct mutually beneficial business with the Pacific Northwest. We encourage BPA to adopt an Intertie access policy which fairly and equitably allows the maximum use of the Intertie by non-federal utilities. We have pointed out in these comments areas where we feel BPA may be able to fashion positive changes. With a constructive approach such as this, we trust that our respective regions will move closer to the realization of a true win-win situation.

Sincerely,



James W. Beck
Chairman

SMUD
SACRAMENTO MUNICIPAL UTILITY DISTRICT ▯ P. O. Box 15830, Sacramento CA 95852-1830, (916) 452-3211
AN ELECTRIC SYSTEM SERVING THE HEART OF CALIFORNIA

DGM 88-30

February 18, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-183
RECEIPT DATE:
FEB 19 1988
AREA: DISTRICT
D-3

Public Involvement Manager
Bonneville Power Administration
P. O. Box 12999
Portland, Oregon 97212

The Sacramento Municipal Utility District (SMUD) appreciates this opportunity to comment on the Bonneville Power Administration's (BPA) December 15, 1987, "Revised Draft; Long-Term Intertie Access Policy (LTIAP). SMUD has a significant interest in the LTIAP development due to its present 200 megawatt transmission entitlement on the Intertie, and approximately a 200 MW ownership share of the proposed California-Oregon Transmission Project (COTP).

SMUD is presently facing a critical resource planning period due to its current evaluation of the economic benefit of operating certain existing generating sources of the District versus the replacement of such sources through purchased power contracts or other alternatives. The nature of BPA's final adopted Intertie Access Policy will be a critical factor in any SMUD decision to rely on the Pacific Northwest as a market for power purchases and exchanges.

In the introduction to the LTIAP, BPA states that this revised policy was intended to provide greater planning certainty to Northwest and California Utilities, and secondly to provide revenue protection for BPA. SMUD's perspective is that the proposed LTIAP will not satisfy either of these objectives. SMUD maintains this position because: the mitigation measures associated with assured delivery in the LTIAP proposal, introduce greater planning uncertainty for non-BPA transactions over the Intertie than realized to date; and, the stabilization of BPA rates are not as much a function of BPA controlling the non-firm energy market to the southwest via LTIAP, as it is due to BPA's inability to market surplus firm power. SMUD's specific comments follow.

PROPOSED MITIGATION FOR ASSURED ACCESS

In the introductory comments, BPA states that it is expanding assured access rights to the Intertie. In fact, BPA is eliminating assured access, and effectively creating

"interruptible assured access" by the proposed implementation of Section 4(d)(4) mitigation measures. The mitigation proposals jeopardize the first stated goal of BPA, to provide greater planning certainty for Intertie transactions. This uncertainty is created in Section 4(d)(4)(A) for firm power sales and exchanges by the potential for BPA to interrupt assured access rights under Condition 1 if a Northwest utility's assured delivery amount is less than its formula allocation. Assured access rights should not be subject to such interruption. This interruption seems particularly incongruous with BPA's stringent requirements for a contract to obtain assured access.

BPA may argue that, since energy would be available from BPA during an interruption, assured access is not interrupted by Section 4(d)(4)(A). However, the displacement of a firm power resource delivery due to a mandatory BPA purchase in order to continue to receive Intertie access, represents a substantive interruption. In addition, this provision, when considered in concert with BPA's proposal to potentially constrain formula allocations by basing such allocations on the Southwest market size rather than on available Intertie capacity, causes significantly more uncertainty in the ability of a Northwest party to retain uninterrupted assured access.

BPA's LTIAP proposal produces additional uncertainty for parties entering into seasonal exchanges. This uncertainty is found in Section 4(d)(4)(B) where under conditions 1 and 2 mandatory energy return points and schedules are required. This Section also temporarily eliminates any contractual provisions that allow for a Southwest party to make payment by cash rather than by return energy. The economics of any seasonal exchange agreements may be substantially impacted by these provisions, particularly considering that these mitigation measures are proposed to be implemented under both conditions 1 and 2.

BPA RATIONALE FOR MITIGATION

In BPA's introductory comments to the proposed LTIAP, BPA states:

> "Mitigation refers to conditions imposed on a utility for an Assured Delivery Contract. Intertie Capacity not available to BPA because of Assured Delivery contracts executed between a Northwest utility and a Southwest utility reduces BPA revenues and can inhibit BPA's ability to make its Treasury payments. During the operating year, BPA often has power available to load the Intertie fully. Assured Delivery granted under these circumstances would reduce BPA's revenues. BPA recognizes the interest of utilities in gaining firm access to the Intertie. BPA is not willing,

> however, to jeopardize its fiscal responsibilities to the Treasury."

This statement makes it clear that the singular goal of the proposed LTIAP is BPA revenue protection. SMUD recognizes BPA's interest in revenue stability, and if in fact a significant element of revenue stability could be introduced by BPA's implementation of this proposed LTIAP, SMUD might have a more sympathetic view of the proposal. However, it is SMUD's understanding that analyses performed by BPA and the Pacific Northwest Utilities Conference Committee on the value of the LTIAP's proposed mitigation measures, indicated annual values to BPA in the range of $5 to $15 million. These revenue benefits were realized out of total annual BPA non-firm energy sales revenues of approximately $200 to $225 million. It has not been demonstrated that $5 - $15 million increases in its annual non-firm energy revenue will provide a major element of revenue stability to BPA.

SMUD's final comment regarding the BPA revenue stability issue is that, if BPA is seeking revenue protection through extra-regional surplus sales, such protection would best be established through long-term surplus firm power sales by BPA. In order to provide the practical ability for BPA to make such long-term firm sales, SMUD suggests that BPA would be best served by seeking to amend the Northwest Regional Preference Act legislation, rather than through the LTIAP design. This approach would allow BPA to effectively compete in the firm surplus power market, rather than eliminate competition over the Intertie.

FORMULA ALLOCATION

Under Section 5 of the proposed LTIAP, BPA is proposing to implement Condition 1 formula allocations, "when the Federal System is in spill or in likelihood of spill, as determined by BPA." The definition of Condition 1 should be made more precise, particularly since there may be significant incentive for BPA to declare Condition 1 if the proposed mitigation measures are adopted.

The major aspect of the formula allocation proposal that concerns SMUD is the concept of BPA allocating access for non-firm sales under Condition 1, based on BPA's perception of the size of the "Southwest market at BPA's applicable rate", rather than based available Intertie Capacity. SMUD believes that this proposal will potentially leave portions of the Intertie unused. Significant work remains to be completed by BPA to demonstrate how their proposed alternative mechanism of allocating to Southwest market size will function effectively.

SHARE-THE-SAVINGS RATE

SMUD generally supports the concept of the development of a share-the-savings rate as the basis for establishing a Northwest surplus non-firm energy rate. Such a rate would be far more equitable than a Northwest non-firm energy rate priced at just below the decremental cost of Southwest utilities. However, SMUD does not support the use of a share-the-savings rate formula, as the basis for allocation of Intertie access. Such approach could result in the overly restrictive and inefficient allocation of Intertie access.

CONCLUSION

The proposed LTIAP revisions go too far in establishing mitigation measures to provide BPA revenue protection, and not far enough in increasing the amount of firm transmission access available for the mutual benefit of Pacific Northwest and Southwest ratepayers. BPA has not clearly demonstrated the need for the proposed mitigation measures, nor a clear mechanism for formula allocation. Until these issues have been adequately addressed, SMUD cannot support adoption of the revised LTIAP.

Sincerely,

Frank Hahn
Deputy General Manager

LEAGUE OF WOMEN VOTERS OF OREGON
189 Liberty Street N.E., Room 307 Salem, Oregon 97301 (503) 581-5722

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-184
RECEIPT DATE:
FEB 19 1988
AREA: DISTRICT

February 16, 1988

Teresa Cunningham Byrnes
Acting Public Involvement Manager
Bonneville Power Administration
PO Box 12999
Portland, Oregon 97212-0999

RE: Intertie Access Policy

Dear Teresa,

The League of Women Voters of Oregon encourages the Bonneville Power Administration to maintain its position on the Long Term Intertie Access Policy and provide that only resources which comply with the specifications in the Northwest Power Planning and Conservation Act--as interpreted by the Northwest Power Planning Council--shall have access to the Intertie. The provisions which incorporate protection of the fish and wildlife must be maintained. The Power Planning Council's restrictions on hydropower development must also be followed.

Bonneville Power Administration deserves commendation for a strong public involvement program. The public has a right to participate in decisionmaking at each phase in the process and at each level of government involvement.

The League supports environmentally sound energy resources, with consideration of the entire cycle of energy production, and with emphasis on energy conservation. We support the testimony of the Northwest Conservation Act Coalition on this issue.

Sincerely,

Sharon Little
President

Adele Newton
Natural Resources Chair

Ron Koenig
233 107th SE #4
Bellevue, WA 98004

Ron Koenig
233 107th S.E. #4
Bellevue, WA 98004

2-15-88

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-185
RECEIPT DATE:
FEB 19 1988
AREA: DISTRICT

Ms. Donna Geiger, Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Dear Ms. Geiger:

I am delighted to hear of BPA's plans to refuse intertie connections to any hydroelectric plant built in "Protected Areas." This is really what the majority of the northwesterners want — an end to creating ecological havoc to our precious fish and wildlife.

Those who oppose the proposal are the ones who's pocketbooks are at stake by developing and/or receiving the energy of the dams.

As I see it, the decision is clear cut. Uphold the proposal and make many northwesterners happy, or rescind the proposal and make a few developers and utility managers happy.

I surely hope BPA cares about its environment and stands by its proposal.

Sincerely,
Ron Koenig

BC Hydro

COPY

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-186
RECEIPT DATE:
FEB 18 1988
AREA:

18 February 1988

Mr. James J. Jura
Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon
U.S.A. 97208

cc: AL-15

Dear Mr. Jura:

Proposed Long Term Intertie Access Policy (LTIAP)

On 24 December 1986, my predecessor, Mr. Chester A. Johnson, wrote to you describing B.C. Hydro's disappointment in the intertie allocation process under the draft LTIAP for Canadian extraregional resources.

The revised draft LTIAP, released by BPA on 15 December 1987, does not alleviate our concerns originally expressed in December 1986. I sincerely hope that we may find common ground to see modifications of mutual benefit.

Yours very truly,

ORIGINAL SIGNED BY
CHAIRMAN

L.I. Bell
Chairman and
Chief Executive Officer

Attachment

cc: Public Involvement Manager

REVISED DRAFT LONG TERM INTERTIE ACCESS POLICY (LTIAP)
DATED 15 DECEMBER 1987

1. B.C. Hydro (BCH) is concerned that the revised draft LTIAP now provides U.S. extraregional utilities with higher priority than BCH in their chance of receiving Assured Delivery rights. The revised draft contemplates Assured Delivery for U.S. extraregional utilities but Canadian utilities will not receive such access until the third AC is completed. Even if the third AC is completed, BPA may deny assured delivery access to Canadian utilities if BPA determines such access would substantially interfere with its power marketing program.

2. The wording of Section 6(b) (re Formula Allocation for extraregional utilities) is unclear. In the previous October 1986 draft BCH could receive access under Condition 2 if it provided BPA with consideration of value. BCH seeks to clarify whether this situation has changed since the wording in the revised draft refers only to Condition 3 access.

3. BCH also seeks clarification of whether there are any circumstances, other than completion of the third AC, under which BCH could obtain Assured Delivery rights on the intertie. For example, if BCH and BPA successfully negotiate an agreement for coordinated system operation as contemplated in the current joint study agreement, could BCH qualify for Assured Delivery rights?

4. Many utilities have criticized the draft LTIAP because Condition 2 prevents competitive marketing of PNW surplus energy. BCH strongly urges that when firm energy surpluses in the Pacific Northwest decrease to a specific level (say 500 AvMW) that Condition 2 Formula Allocation be removed. This would allow return to competitive marketing as it existed prior to the implementation of the Near Term Intertie Access Policy.

5. BCH requests BPA to identify changes it will implement to the LTIAP if the Canada-U.S. Free Trade Agreement is passed. In particular, what rules or allocation procedures will be used to allocate limited transmission capacity between BCH and U.S. extraregional utilities? The revised draft of the policy is currently inconsistent with the Free Trade Agreement which indicates that BCH should receive access considerations under the policy which are no less favourable than the most favourable treatment afforded to utilities located outside the Pacific Northwest.

B.C. Hydro
Power Marketing
18 February 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # LTIAP-3-187
RECEIPT DATE:
FEB 1 1988
AREA: DISTRICT
D.3

Southern California Edison Company
P. O. BOX 800
2244 WALNUT GROVE AVENUE
ROSEMEAD, CALIFORNIA 91770

ROBERT W. KENDALL
MANAGER OF POWER CONTRACTS

TELEPHONE
(818) 302-9480

February 18, 1988

Ms. Donna L. Geiger
Public Involvement Manager (Ext. 230-3478)
Bonneville Power Administration
905 NE 11th Avenue
Portland, Oregon 97232

Dear Ms. Geiger:

Subject: Long Term Intertie Access Policy

In response to BPA's December 15, 1987 notice, enclosed are the comments of Southern California Edison Company on the Revised Draft Long Term Intertie Access Policy (LTIAP). Edison appreciates the opportunity to review and comment on the proposed policy, and to participate in the public involvement process. Although Edison found portions of some public meetings to be informative, the compacted discussion schedule was far from optimal in light of the filing deadline and the complexity of the LTIAP. We also find discouraging BPA's apparent lack of interest in seriously evaluating more open and competitive policy alternatives. Edison hopes that BPA will give genuine consideration to Edison's comments and recommendations and adopt a more open and competitive Intertie Access Policy.

Sincerely,

Robert Kendall

Enclosures

UNITED STATES OF AMERICA
DEPARTMENT OF ENERGY
BEFORE THE
BONNEVILLE POWER ADMINISTRATION

In the matter of the)
Bonneville Power Administration) REFERENCE: ALP
Long-Term Intertie Access Policy)
)

COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY ON BPA'S REVISED DRAFT LONG-TERM INTERTIE ACCESS POLICY

February 19, 1988

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Appendix A

Appendix B

UNITED STATES OF AMERICA
DEPARTMENT OF ENERGY
BEFORE THE
BONNEVILLE POWER ADMINISTRATION

In the matter of the Bonneville Power Administration Long-Term Intertie Access Policy	))))	REFERENCE: ALP

COMMENTS OF SOUTHERN CALIFORNIA EDISON COMPANY ON BPA'S REVISED DRAFT LONG-TERM INTERTIE ACCESS POLICY

The Comments of Southern California Edison Company ("Edison") on the Bonneville Power Administration's ("BPA") December 15, 1987 Revised Draft Long-Term Intertie Access Policy ("LTIAP") are submitted in accordance with BPA's December 18, 1987 Notice of Intertie Update and request for comment.

I. INTRODUCTION

For the last five years Edison has participated in the public review of various BPA policy proposals for providing access to the portion of the Pacific Intertie now controlled by BPA. Through a long succession of concepts and drafts of interim, near-term, and long-term policies, BPA has increasingly constricted access to the Pacific Intertie and impaired competition. BPA's latest proposal, the December 15, 1987 LTIAP is no exception. Through several new provisions such as

"mitigation" and anticompetitive "allocations to the market", and the continuation of other restrictive provisions of previous policies, BPA is effectively foreclosing any possibility for a workably competitive market to develop in the Pacific Northwest for sales over the Pacific Intertie.

Edison recognizes BPA's legitimate needs to effectively market its surplus power and to stabilize its revenue stream in order to achieve repayment of its debt to the United States Treasury. What is becoming increasingly and disturbingly clear is that BPA does not recognize California's legitimate need to purchase power from the Pacific Northwest in a fair and competitive marketplace.

Edison believes that the only reasonable compromise between BPA's legitimate needs and California's legitimate needs is for BPA to adopt a more open and competitive Intertie Access Policy ("IAP") for transmission capacity that is excess to BPA's reasonable needs for marketing its own surplus power. A more open and competitive IAP will benefit both regions by allowing the efficient use of resources, the establishment of greater long-term revenue stability for BPA, and the encouragement of mutually beneficial transactions.

In these comments, Edison will explain further its proposal for a more open and competitive IAP. Edison will also set forth its objections to several of the provisions which are currently included in the LTIAP. Edison has found, after

reviewing the LTIAP and participating in BPA's public process, that Edison's prior comments on earlier Intertie access proposals, although apparently ignored by BPA, are still generally appropriate and therefore Edison attaches those comments as Appendix A hereto and incorporates them by reference.

II. BPA Should Adopt A More Open Intertie Access Policy For Transmission Capacity That Is Excess To BPA's Reasonable Needs

In order for there to be efficient use of electric generation in the Western United States, and to encourage the construction of additional transmission facilities between the regions, BPA's LTIAP must be substantially revised. Edison proposes that the following principles form the basis for an appropriate IAP:

- On a long-term basis, BPA should be allowed to reserve sufficient Intertie capacity for transmission of its reasonable projections of surplus firm power sales to California, but should provide, on a first-come first-served basis, fair and nondiscriminatory long-term firm access to any remaining capacity to all utilities, whether located within the Pacific Northwest or outside of the region;
- BPA should not be permitted to place conditions or restrictions on the types of transactions which occur on Intertie capacity which is excess to BPA's reasonable needs, nor should it have any oversight role on contracts signed by third parties; and
- On a day-to-day basis, BPA should be allowed to reserve sufficient intertie capacity to sell its own prearranged transactions and to meet its contractual commitments for firm intertie transmission service. BPA should provide, on a first-come-first-served basis, short-term access on a fair and nondiscriminatory basis to any remaining Intertie capacity to all utilities that can show that they will actually utilize the capacity.

BPA should only reserve on a long-term basis sufficient transmission capacity to meet its reasonably foreseeable needs to market federal energy and to meet its existing contractual commitments to provide Intertie transmission service. Moreover, in determining its "reasonable needs", BPA should not lock-up large portions of the Intertie with overly optimistic and unrealistic expectations of possible sales to California. In passing legislation authorizing construction of the Intertie, Congress intended that BPA should not have the authority to decline to provide transmission service to others merely because BPA may have energy available for sale to serve the same load. By law, any transmission capacity that is excess to BPA's genuine needs must be provided for others to use on a fair and nondiscriminatory basis.

On a short-term day-by-day or hour-by-hour basis, this proposal for utilization of the Intertie would require BPA to provide nondiscriminatory access to any Intertie capacity that is not actually being used. There is no authority or any other basis for BPA allowing the Intertie to go unused if other utilities can use the capacity. If the Intertie is not being fully utilized, other utilities should be able to receive access if they can show that a transaction with California has been arranged. In addition, BPA's Intertie Access Policy should not

attempt to regulate the types of transactions that take place over the Intertie. Such an attempt to regulate the transactions of other utilities is beyond BPA's statutory authority.

Edison's proposal for a more open and and competitive access policy will better accomplish the legitimate goals of allocating intertie access. These legitimate goals are (1) developing a more efficient market for electric power, (2) improving BPA's ability to make timely repayments to the United States Treasury, (3) enhancing the mutual benefits from power transactions between the Pacific Northwest and the Pacific Southwest, and (4) encouraging construction of additional interregional transmission facilities in order to increase mutually beneficial transactions over the long run.

A. Development of a More Efficient Market

A more open and competitive access policy will better encourage increased efficienty in the market for electric power in the Western United States than will BPA's restrictive LTIAP. BPA's LTIAP encourages the inefficient use of resources in the Western States by excluding or minimizing the use of least cost resources. In addition to excluding low cost Canadian resources from the Pacific Intertie for much of the year, the intertie allocations to the non-federal entities are fixed and non-transferable. This results in unused Intertie capacity when

there are entities with no allocation, or with already utilized allocations, that may be willing and able to consummate a transaction with California.

These practices inevitably result in increased operation of thermal resources in both the Pacific Northwest and California, and deprive California of both an economic and environmentally sound generation alternative. The eventual consequence of the LTIAP is that long-term transactions are discouraged resulting in lower long-term revenues for both BPA and the Pacific Northwest, and detrimentally impacting the viability of additional transmission projects.

A more open and competitive access policy on the other hand would allow increased long-term transactions by removing the penalties and uncertainties associated with Assured Delivery and mitigation contained in the LTIAP. California and the Northwest would be able to demonstrate a cost-effective need for additional transmission and could defer new thermal resources. All of this would be both environmentally and economically beneficial.

B. Enhancement of BPA's Ability to Make Timely Repayments

Edison strongly believes that the LTIAP is likely to result in further market and revenue instability. Edison suggests that the potential loss to BPA of its long-term market in California, which Edison notes was not factored into BPA's analysis, should be a much greater concern to BPA than the incremental benefits which BPA is seeking through the LTIAP.

Edison does not believe that BPA's ability to repay the United States Treasury would be threatened by a more open and competitive access policy. BPA bases its firm rates at a level to recover the total revenue requirement including a credit for expectations of revenues over the Intertie. If BPA expects less revenues over the Intertie due to adoption of a less restrictive LTIAP, then it merely has to incorporate that into its firm rate design. BPA originally estimated that, without mitigation, BPA would lose $14 million annually if 800 MW of Assured Delivery were allowed. BPA would need to recover this revenue through higher rates to firm customers. During the public participation process, this figure was substantially reduced. Even if it is assumed that BPA would lose $5 million annually without mitigation, recovering all this revenue from Priority Firm ("PF") customers would only require a miniscule 0.26% increase in the PF rate or 0.06 mill/kwh.

In the short run then, the LTIAP has no impact on BPA's ability to repay the Treasury. In the long run, an LTIAP which is reasonable and which does not encourage the diminution of the California market will provide a greater chance for the repayment to be met.

C. BPA's Commitment to Congress

A more open and competitive access policy would be more consistent with BPA's commitment to Congress than the LTIAP. On May 7, 1987 BPA Administrator Jura testified to Congress that BPA will

i) structure its rate to collect, through sales over the Intertie, no more than the costs FERC has determined are attributed to nonfirm energy, ii) set an upper limit on its nonfirm (energy) rate, regardless of the fact that gas and oil prices, or other California generation costs, may rise in the future, and iii) not establish an anticompetitive IAP. In the final LTIAP BPA should confirm these commitments to Congress. These commitments necessarily require BPA to elevate other important policy goals such as efficient resource use, equity, and utilitization of the Intertie to a level at least equivalent to revenue recovery. Mr. Jura's commitments to Congress also apply to BPA allocation of Intertie capacity. The spirit of Mr. Jura's commitments demand that BPA's Intertie allocation process not create a cartel allowing non-federal Northwest energy sellers to artificially charge more than a fair market price for energy. If BPA adopts Edison's proposal of not allocating to individual non-federal sellers, BPA would be able to refrain from interfering with price competition among such non-federal sellers, and would be acting in a spirit consistent with both Mr. Jura's commitments and a more open and competitive market.

III. Critique of the LTIAP

The following discussion will detail Edison's major concerns with the LTIAP. Edison has attempted to cooperate and participate actively with BPA during this public process. Edison appreciates the opportunities which it has been afforded to meet

with BPA and other interested parties. Edison does not believe however that sufficient time for thorough analysis of BPA's assumptions and conclusions and meaningful dialogue has been offered. Specifically, as noted below, on several occasions the data supporting several of the key LTIAP provisions was either not available at all or not received with sufficient time for review prior to the public participation session. Moreover, because several key provisions of the LTIAP have apparently changed during the public participation process, Edison has not had an opportunity to develop as fully as possible our concerns with the LTIAP. Notwithstanding these impediments, Edison has attempted to detail its concerns in as illuminating and constructive a format as was possible given the time constraints.

A. Assured Delivery

The LTIAP intimates that BPA has expanded the amount of Assured Delivery which BPA will make available to non-federal Pacific Northwest entities. The implication is that BPA is willing to allow increased Assured Delivery transactions. The true impact of the LTIAP Assured Delivery provisions is that long-term transactions are discouraged and capacity/energy exchanges are prohibited. Indeed, Edison fears that the mitigation provisions in particular will effectively preclude most, if not all, long-term transactions.

The effect of Assured Delivery with mitigation is that BPA will hold large amounts of the Intertie with no expectation

of using the capacity itself in order to keep others from possibly reducing BPA's sales by using the capacity. BPA is in essence precluding others from using portions of the Intertie for long-term exchanges when BPA has no intention of using that portion of the Intertie or will use it only occasionally, and merely in order to make spot sales. Moreover, BPA totally excludes nonregional, including Canadian, utilities from any access for much of the year. BPA will also not allow Assured Delivery if BPA determines that the transaction is an advanced sale of nonfirm energy. Edison questions the propriety of BPA excluding others from reasonable access solely in order to bolster the quantity and/or the price for its own sales. Access should only be denied when the transmission is required to physically deliver BPA's energy -- not for economic, competitive or market enhancement grounds.

1. The 800 MW Limitation

BPA's proposal to provide only 800 MW of firm access is both arbitrary and inadequate. The 800 MW limit has no technical or operational basis. In the December 15, 1987 published explanation of the LTIAP and again in the January 1988 public meetings BPA stated that the offered 800 MW was derived from the sum of 360 MW of regional non-federal firm surplus power plus 440 MW of August Firm Energy Load Carrying Capability available to the Northwest non-federal utilities. BPA then retracted this explanation and suggested that the 440 figure came

from subtracting 360 from an arbitrarily determined 800 total. (TR at p. 104) Moreover, during the public meeting on January 7, 1988, BPA admitted that no study was done to explain the 800 MW number. It was an arbitrarily chosen marketing number. designed to maximize BPA's ability to serve the California market during the heavy load hours when the market tends to allow the price of energy to be higher. (TR at p. 25-26)

BPA presently controls about 4000 MW of Pacific Intertie capacity. With completion of the DC expansion and expiration of the firm services to SDG&E and WAPA, BPA will control 5200 MW (2200 AC and 3000 DC) of capacity with Portland General Electric and Pacific Power & Light controlling an additional 1000 MW of AC capacity. Instead of choosing an arbitrary amount of capacity allowed for Assured Delivery or basing Assured Delivery on BPA's estimates of how much surplus non-federal utilities have, Edison believes that BPA should identify the amount of capacity BPA needs to reserve for its own reasonable expected firm sales and exchanges and offer the rest on a nondiscriminatory basis to Northwest (and Canadian) generating utilities for long-term firm transactions.

Historically, BPA has sold about half of the Northwest energy purchased by California, and had as much as two-thirds of the sales in 1983 and 1976. Even assuming that BPA intends to reserve two-thirds of the total Intertie for itself (total Intertie being 6200 MW), 2000 MW would be available for

non-federal use. Even with Portland General Electric and Pacific Power & Light controlling 1000 MW, there should still be 1000 MW left for the other non-federal Northwest utilities, not just 800 MW. Moreover, such a two-thirds/one-third split would allow BPA to sell more energy than it has in the past and would <u>not</u> require any "mitigation" for the 1000 MW of Assured Delivery transmission service provided to Northwest utilities.

2. <u>Mitigation</u>

In addition to arbitrarily and inadequately providing for Assured Delivery, BPA proposes to impose "mitigation" on those transactions which it will consider for Assured Delivery. BPA's "mitigation" proposals are obviously intended to discourage requests for Assured Delivery. BPA's proposed restrictions (must purchase energy from BPA, must return energy only at COB/NOB, must not cash-out exchange obligations) are simply revenue generation measures intended to punish the exchanging parties for opting for Assured Delivery.

Once BPA has decided that a portion of the Intertie is excess to its reasonably foreseeable needs and offers Assured Delivery, there is no justification for BPA adjusting the daily allocation downward by the amount of Assured Delivery. The prohibition against cash-outs and the requirement that all deliveries be at COB/NOB are clearly anticompetitive infringements on private transactions.

No penalty, mitigation or infringement on the contract terms of non-federal transactions should be assessed by BPA or those utilities taking advantage of Assured Delivery. To insure this, the LTIAP must be revised to eliminate the

- formula Allocation reduction for Assured Delivery and the requirement for Pacific Northwest utilities to purchase BPA energy at the then-applicable rate if the allocation is less than Assured Delivery;
- prohibition on cash-outs in Conditions 1 and 2;
- restriction on cash-out rates in Condition 3;
- BPA's review of a sale to determine whether it is an advanced sale of nonfirm energy;
- requirement that energy be delivered at COB/NOB

Moreover, if BPA insists on requiring that Pacific Northwest utilities buy from BPA, to the extent that the Assured Delivery level for an hour exceeds the nonfirm allocation, BPA's price should be neither punitive nor subject to BPA's discretion. Rather BPA should specify that it will offer energy to the Pacific Northwest utility at a rate not greater than the decremental cost of that Pacific Northwest utility for that hour.

3. Exhibit B and Exchanges

Edison does not believe that the ability to engage in exchanges should be tied to Exhibit B amounts. Most exchanges involve the transfer of capacity not energy. Yet the "Exhibit B amounts" referred to on page 6 of the LTIAP are the "average firm surpluses" of certain Northwest utilities. These values are

erroneously referred to as "Seasonal Exchange maximums" in the LTIAP. These Exhibit B amounts are generally unrelated to the ability of a Pacific Northwest utility to deliver capacity to California. In addition, not having an Exhibit B firm surplus is not an indication that a utility will be unable to implement seasonal exchanges.

Exchanges should not be restricted to just the "seasonal" variety. Northwest and California utilities will benefit from capacity-for-energy exchanges like those BPA has had for twenty years with Edison and the Los Angeles Department of Water and Power. BPA also should not prohibit capacity sales, its own or these by non-federal utilities, nor should BPA rule out other transactions such as generating unit purchases and sales. Neither should total Intertie capacity to be provided for Assured Delivery contracts be divided between firm sales and seasonal exchanges.

4. Benefits of Edison's Suggestions

Edison's suggestions will increase the amount of transmission capacity for Assured Delivery while removing the disincentives for Pacific Northwest and California utilities to enter into long-term transactions. Efficiency will thus be enhanced because high value long-term transactions which benefit both the Pacific Northwest and California are promoted. Such

long-term transactions will also help justify the need for additional transmission capacity and will help to defer new thermal generation in both regions. This proposal requires that BPA consider only legitimate physical Intertie constraints in determining Assured Delivery and refrain from focusing on and interfering with the competitive transactions of non-federal sellers.

B. Formula Allocation

Edison has opposed BPA's allocation procedures since the initial Intertie Access Policy proposal in 1983. Formula Allocation is, by design, the death of price competition on the Pacific Intertie. Naturally, Formula Allocation is cheered by some Northwest utilities due to the guaranteed higher energy prices that BPA's Formula Allocation cartel will assure. Experience under the Interim and Near-Term IAPs has shown that Formula Allocation energy prices are fixed at just below the California buyers' decremental cost regardless of the level of Northwest supply and California demand. This occurs because Formula Allocation never allows Northwest supply to exceed California demand. The new aspects of Formula Allocation proposed in the LTIAP ("allocating to the market" and what is referred to as "rolling thunder") are a testament to BPA's discrimination against the California ratepayer and are even more anticompetitive and inefficient than previous proposals.

1. Allocating To The Market

In the LTIAP, BPA proposes to allocate access under Condition 1 based on the size of the Southwest market rather than on Pacific Intertie transmission capacity. The effect of this change constitutes classic price fixing.

Allocation to market gives BPA complete discretion to fix the price for energy for the entire Northwest. BPA's rationale for the change is the complaint that Northwest utilities undercut BPA's price and use their allocation to sell to the Southwest thus reducing BPA sales. By allocating to the market, BPA determines the size of the Southwest market with BPA setting the selling price for energy.

This change, if implemented, eliminates all price competition among Pacific Northwest sellers. BPA's own Appendix A on p.16, demonstrates that allocation to market results in price fixing. In the example under Allocation to Intertie, BPA's price for energy is 16 mills/kWh; the non-federal price is 15.5 mills/kWh. Under allocation to market, the price of energy from both BPA and non-federal utilities is 16 mills/kWh. Price competition in the Pacific Northwest no longer exists. Even more disturbing is the narrow focus of this approach. BPA's sole concern appears to be its revenues and absolutely no consideration has been given to efficient resource use, the spill of energy, displacement of thermal resources, or the impact on other Pacific Northwest utilties.

At the January 27, 1988 meeting, BPA offered proposed Formula Allocation changes. One change is to eliminate the proposed "hydro cap" as a basis for allocations and replace it with declarations. Although Edison still advocates no Formula Allocation whatsoever, BPA's proposed change would be an improvement over the previous proposal. However, if daily declarations are to be used as the basis for intertie allocations, such declarations must be realistic (the energy must be reasonably saleable to California at the offered price), and any unused transmission capacity be reallocated real time on a nondiscriminatory first-come-first-served basis. Another proposed change by BPA is the elimination of allocation to market and a return to allocating on the basis of Intertie capacity. While Edison strongly urges that there be no allocation procedure, allocation to the Intertie is a somewhat less anticompetitive alternative to allocation to market.

2. "Rolling Thunder"

Edison also opposes BPA's additional proposed change to the LTIAP that, if BPA is unable to sell its full prorata allocation under Condition 1, it will take larger allocations on ensuing days until the cumulative difference is made up. This proposal has been referred to as "rolling thunder" during the public participation process. While allocating to the size of the energy market is not new, (it was tolerated under the Exportable Energy Agreement when energy was sold at BPA's spill

rate), even under "allocating to the market" BPA could not confiscate non-federal allocations. With "rolling thunder" BPA certainly can, and will.

Applying "rolling thunder" to the Appendix A "Allocation to Market vs. Intertie under Condition 1" example on page 16 of the December 15, 1987 explanation of the LTIAP reveals the following scenario: On day 1 BPA is allocated 2667 MW of Intertie capacity and non-federal utilities are allocated 1333 MW. After BPA sells only 1667 on day 1, BPA's day 2 allocation increases to 3667 MW (its prorata 2667 plus the 1000 shortfall from day 1) with non-federal utilities receiving only 333. If BPA continues to sells only 1667 on subsequent days, the non-federal allocation and sales will bounce back and forth between 333 to 1333, unless of course BPA decides to take it all, in which case the non-federal allocation goes to zero on day 3.

All parties lose when BPA exerts such control. BPA's proposal will eliminate non-federal allocations when BPA's energy is uneconomic to the Southwest because BPA overprices its energy. This proposed change will exclude other Northwest sellers from the Intertie, eliminating all potential for competition in the Pacific Northwest. This discriminates against other Northwest and Canadian sellers, and also discriminates against California energy purchasers by increasing prices and reducing the amount of energy available.

Both "allocating to the market" and "rolling thunder" must be deleted from the LTIAP. Allocations should never total less than the capacity of the Intertie. The market will only be less than the Intertie if BPA, or another Northwest seller, overprices its energy. While this may occasionally happen on a prescheduled basis during offpeak hours, such occasions are relatively insignificant and can be corrected by realtime transactions.

3. Section 5(d)

Edison welcomes the LTIAP proposal contained in Section 5(d) to eliminate Condition 2 and 3 prorata allocations for non-federal utilities when the third AC Intertie is completed. Notwithstanding this, Edison continues to advocate the immediate elimination of all prorata allocations for non-federal utilities under all three Intertie Conditions. There is no justification for BPA tying the elimination of the prorata allocations to the removal of what are alleged to be anticompetitive problems in the Southwest.

In its explanation of the LTIAP, BPA claims it cannot wait to cure alleged problems in the California market, citing California Energy Resources Conservation & Development Commission (CEC) v. BPA, 831 F. 2d 1467 (9th Cir. 1987), and the FERC Docket No.E-7777 proceeding. Through Section 5(d), BPA sets itself up as a "Star Chamber" court to determine whether Intertie access is impaired. BPA is not a federal court nor is it the Federal Energy Regulatory Commission ("FERC"). BPA has no authority to

determine or set antitrust policy. Judge Norris, in his dissent in the CEC v. BPA case, reminds BPA that its statutory mission does not extend to acting as the guardian angel for Northwest utilities in their market relationship with Southwest utilities. CEC v. BPA, 831 F.2d.1467 at 1479. Yet that is precisely what BPA is proposing to do with Section 5(d), and with Formula Allocation in general.

Edison also disagrees with BPA's belief that anticompetitive problems exist in the California market. There is certainly no legitimate support in this record for BPA's belief or for BPA's "solution" to the perceived problem which is contained in Section 5(d). BPA admits that it did not do any quantitative studies, and that it relies on allegations made in the FERC Docket No.E-7777 proceeding and antitrust actions in Federal District Court (TR at p.226-227). However, there have been no final decisions in either of those proceedings. Furthermore, the administrative law judge in the E-7777 proceeding, on the specific issue of Intertie access, ordered access to be made available on an interruptible basis, which is precisely what Edison has been doing for years. Finally, it is unreasonable for BPA to rely on statements made by the City of Vernon as support for Section 5(d) when BPA admits there was no opportunity for California utilities to rebut or respond to Vernon before BPA determined the credibility of those allegations.

Under the LTIAP proposal, the elimination of Conditions 2 and 3 allocations would not occur if BPA determines that Intertie access is impaired or if BPA decides that Southwest utilities are prorata allocating energy purchases. The possible retention of Conditions 2 and 3 allocations on the basis of such determinations is inappropriate. The LTIAP lacks any criteria for determining what constitutes Intertie access impairment. BPA admitted these criteria have not been developed (TR at p.232). To include such criteria in the final LTIAP with the existing record violates basic due process legal requirements. With regard to the potential utilization of some prorata scheme to allocate energy purchases by Southwest utilities, BPA representatives stated this language refers to the Third AC Line Supplemental Letter Agreement, yet they admitted they do not know what the letter agreement means (TR at p.236). There is no evidence in this record that the Supplemental Letter Agreement would hurt BPA. Thus, there is no support for this language remaining in the LTIAP and must be deleted from the final Policy.

On February 12, 1988, Edison received a copy of two one-page "sensitivity studies" that purport to analyze the revenue impact on BPA if Section 5(d) is implemented. Edison objects to receiving these "studies" less than a week prior to the filing deadline for final comments on the LTIAP, since it gave the parties little time to review and critique the analysis. Moreover, the basis and assumptions for the "studies" were not explained nor provided.

The "studies" claim that maximum possible BPA revenue displacement, if Section 5(d) is implemented, could be high as $5-10 million per year. While Edison believes that the actual figure is more likely to be zero, Edison believes BPA will use this "study" to justify not eliminating Conditions 2 and 3 prorata allocations for non-federal utilities when the third AC line is completed. There is no justification for BPA's prorata allocation scheme in the LTIAP, and, it now appears, through this "study", that Section 5(d) is just a smokescreen to continue Condition 2 and 3 allocations permanently.

C. Revenue Maximization

One of the more inequitable and objectionable aspects of BPA's IAP proposals is BPA's announced policy of revenue maximization from sales to California. In the spring of 1986, BPA intentionally spilled billions of kilowatthours of energy while the Intertie was not fully loaded when California utilities would have purchased the energy if it had been properly priced. BPA would not allow other Northwest utilities to use that Intertie capacity to sell their spill energy to California. Edison alone could have purchased 1.1 billion kWh of additional energy during the March 1 through June 21 period when BPA was spilling energy with the Intertie not fully loaded. Such waste is the inevitable and unjustifiable consequences of BPA's attempts to maximize revenue.

It is clearly contrary to the national interest for BPA, an agency of the federal government, to intentionally waste natural resources for the express purpose of extorting higher energy prices. Edison encourages BPA to renounce its practice of attempting to maximize revenues, and return instead to selling energy at cost-based rates while maximizing conservation and delivery of renewable energy. BPA's actions would then be consistent with its acknowledged purposes of maximizing Intertie usage, equalizing benefits between the regions, and ensuring revenue and planning certainty. (TR at p.324). BPA should formally adopt a firm policy of never spilling water, or forcing any other utility to spill water, when more energy could be sold to California, regardless of price. Such spill protection should also apply to extra-regional hydro resources.

BPA's revenue maximization goals have already detrimentally impacted California ratepayers. Experience under BPA's Interim and Near-term IAPs clearly proves that the benefits from Intertie transactions have been skewed in the Northwest's favor. At the May 7, 1987 Congressional oversight hearing, Edison submitted the chart titled "California Utilities Share of Benefits of Purchases From BPA," which is attached hereto as Appendix B. This chart was derived from data contained in BPA's Intertie Operations Report and contains an assumption that BPA energy always displaced natural gas priced at incremental gas cost to California. The chart shows that prior to any access

policy, California typically received two-thirds of the benefits and BPA received one-third. BPA's share was limited by its own FERC-approved rates while California's benefits were a result of the higher cost of oil-and-gas-fired generation displaced. At present oil and gas prices, and without an anticompetitive IAP, the benefits from Intertie transactions over time would split about 50:50. Since implementation of BPA's access policies, California's shares of the benefits have declined to about 20%, and BPA's have risen to about 80%. Northwest non-federal benefits have probably been comparable to BPA's. BPA's anticompetitive access policy clearly has extracted excessive profits from California in keeping with BPA's revenue maximization policy.

D. The Administrator's Power Marketing Program

The "Administrator's Power Marketing Program" has been BPA's consistent and primary justification for its Intertie access proposals. In the LTIAP, under the definition of the Administrator's Power Marketing Program, BPA states its LTIAP objectives as being i) to recover revenue adequate to amortize Federal investments in the Federal Columbia River power and transmission systems, ii) to market surplus Federal power in the Southwest "at equitable rates", and iii) to assist in marketing the Northwest's non-Federal power surplus. Edison disputes that these objectives justify the discriminatory and restrictive access conditions contained in the LTIAP.

1. Treasury Repayment

BPA has consistently used the threat of falling behind in its payments to the United States Treasury as justification for an anticompetitive IAP. BPA's inability to timely repay its federal debt is not a function of Intertie access, rather it is reflective of BPA's poor job of designing its firm rates and forcasting its firm power sales.

Revenue from sales over the Intertie are a revenue credit to BPA's firm rates. If BPA projects less revenue from California as a result of a less restrictive IAP, BPA merely has to increase rates to its firm requirements customers for whom BPA's system was built and is operated. BPA has already begun the process of placing the risk associated with revenue from sales to California on firm regional customers (where it belongs) through the Risk Package adopted in the 1987 rates. BPA no longer flows back the full expected amount of sales from California to regional firm customers. Other factors impacting BPA's revenues, such as the costs and benefits of weather-related variations in BPA's energy supplies and sales, should be reflected in BPA's prices, with higher energy prices in drought years and lower energy prices in wet years, as is the case with any hydro-based system.

The only reason then for making Treasury repayment an Intertie access issue is to provide a justification for further subsidization of Northwest rates which are already among the lowest in the nation. Such subsidization is inequitable and economically inefficient.

2. Equitable Rates

BPA's second objective, marketing surplus Federal power at equitable rates, raises controversial questions. What are "equitable" rates? Aspects of the LTIAP, such as mitigation, reflect an abrupt departure from the historical concept of equitable rates. Moreover, whereas BPA once spoke of equal sharing of benefits, it now threatens California with revenue maximization in its energy sales to California and a policy of potential retalitory "rolling thunder" in its anticompetitive allocations of the California market. Neither concept is equitable.

At the Congressional oversight hearing on May 7, 1987 Administrator Jura made a commitment to Congress that BPA would never ask California to pay more for any Northwest nonfirm energy than BPA's average cost of nonfirm energy. If BPA implements Formula Allocation, and thereby eliminates price competition between BPA and other Northwest energy suppliers, BPA must guarantee that non-federal utilities selling energy under BPA's Formula Allocation proposal are

subject to the same Congressional commitment as a prerequisite to receiving an Intertie allocation. Only then would there be any possibility of equitable rates.

3. Marketing Non-federal Power

BPA's third objective, assisting other Northwest generators in selling their non-federal surplus power, would better be attained by BPA keeping the commitment made over twenty years ago to Northwest generating utilities, California utilities, and Congress that, if allowed to build, own, and operate the Pacific Intertie, BPA would operate that transmission as a common carrier for any Northwest seller (including a Canadian seller) to transact with a willing California buyer, regardless of whether BPA itself had energy to sell. Instead BPA has commandeered the Intertie, and is seeking to pacify the Northwest utilities that have lost access to California by inflating their energy prices to California through Formula Allocation. A more open and competitive access policy would more properly fulfill BPA's commitment and assist other Northwest generators by assuring them of a greater ability to access the California market.

E. Intertie Capacity Reserved for BPA

Section 2 of the LTIAP notes BPA's reservation of Intertie capacity for "the full amount of BPA's surplus firm

power." "Full Amount" and "Surplus Firm Power" need better definition. Surplus Firm Power should be clearly defined as BPA's share of the regional firm surplus identified in the PNUCC Northwest Regional Forecast. Full Amount should be the exact amount that BPA has actually sold, or reasonably expects to sell in the near future, to California in long-term (5 to 20 years) firm contracts. All other BPA energy, whether sold hourly or monthly, should not receive Assured Delivery. This clarification is needed because of ambiguities in other portions of the LTIAP, such as in Section 5 (a) where BPA substitutes "requirements of the Administrator's Power Marketing Program" for "BPA's surplus firm power".

F. Fish and Wildlife Provisions

The LTIAP provides BPA with an excessive degree of control over electric resource additions in the Pacific Northwest under the guise of protecting fish investments. Edison believes that BPA should not use the LTIAP to be the mechanism for implementing its fish and wildlife objectives. There are other more appropriate forums which are available to address these concerns. BPA indicates its intent to become involved in FERC licensing and relicensing proceedings to protect its fish investments. That is the proper forum for dealing with BPA's concerns--the LTIAP is not. It is inappropriate for BPA to add its own layer of regulation just because it may be unhappy with a FERC licensing decision.

Moreover, BPA indicates it intends to conduct an environmental review of extraregional projects such as Site C before the utility can receive access to the Intertie. There is no basis for BPA reviewing the impacts on the environment of facilities located outside of the PNW. Further, BPA intends to reduce the Assured Delivery of Pacific Northwest utilities if they build in "Protected Areas", or if facilities are relicensed in such areas. If the utility's daily formula allocation is not great enough to meet that utility's long term commitments to California, which had previously been provided Assured Delivery, to increase its allocation that utility must buy BPA energy (at BPA's price). The addition of this risk, especially in the case of relicensed facilities, would be a formidable constraint on long-term sales to California.

G. Timeliness and Accuracy of BPA's Supporting Studies

In the two months since BPA published the LTIAP, BPA has ostensibly conducted economic studies of the relative impacts of competing IAP alternatives. These studies supposedly form the basis of much of BPA's IAP recommendations. In order for the participants in BPA's public review process to review and analyze BPA's recommendations, BPA must provide completed studies with proper documentation in a timely manner. Unfortunately, the participants have received poor documentation and incomplete, biased studies provided in an untimely manner. Studies promised before meetings were generally not available until the morning of

the meeting, severely handicapping any meaningful review. Furthermore, what was provided was usually a "trust-me" summary devoid of proper identification of critical assumptions. A classic example is BPA's so-called sensitivity studies of "ceasing allocations to individual non-federal utilities," dated February 11, 1988 - submitted barely one week before final comments on the LTIAP were due. The study documentation is inadequate, the conclusions are unsupported, and the results appear to be extremely inaccurate. The inescapable conclusion drawn from review of the supporting data is that BPA has conducted only the most bare-bones analysis to justify its predetermined conclusions.

IV. CONCLUSION

Edison believes that there is only one reasonable compromise between BPA's legitimate needs, to effectively market its surplus power and to stabilize its revenue stream, and California's legitimate need to purchase power from the Pacific Northwest in a fair and competitive marketplace. This reasonable compromise is for BPA to adopt a more open and competitive IAP for transmission capacity that is excess to BPA's reasonable needs for marketing its surplus power. A more open and competitive IAP will benefit both regions, encourage mutually beneficial transactions, allow the efficient use of resources and establish greater long-term revenue stability for BPA.

Edison urges BPA to change the LTIAP into a more open and competitive IAP by eliminating Formula Allocation and mitigation, providing for greater Assured Delivery, departing from a single goal of revenue maximization, and adopting the other suggestions contained in these comments.

APPENDIX A

TO

COMMENTS OF

SOUTHERN CALIFORNIA EDISON COMPANY

ON BPA'S REVISED DRAFT

LONG-TERM INTERTIE ACCESS POLICY

UNITED STATES OF AMERICA

BEFORE THE BONNEVILLE POWER ADMINISTRATION

In the Matter of the Bonneville Power Administration Intertie Access Policy.	)))	File No. TIE-1

Comments of Southern California Edison Company
on the BPA Intertie Access Policy

September 16, 1983

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UNITED STATES OF AMERICA

BEFORE THE BONNEVILLE POWER ADMINISTRATION

In the Matter of the Bonneville Power Administration Intertie Access Policy.	)))	File No. TIE-1

Comments of Southern California Edison Company on the BPA Intertie Access Policy

The comments of Southern California Edison Company on the BPA Intertie Access Policy are submitted in response to BPA's July 15, 1983 request for recommendations concerning BPA's Notice of Intent to Develop Policy on Providing Access to the Pacific Northwest-Pacific Southwest Intertie ("Intertie").

I.

INTRODUCTION

By letter dated August 30, 1982 (copy attached), Southern California Edison Company ("Edison") responded to a similar notice concerning BPA's transmission policy. At that time Edison noted three issues that deserve to be emphasized once again. First, BPA's objectives for transmission services should include furthering national objectives of minimizing the consumption of fossil fuels, conserving energy, and maximizing the use of

renewable resources.[1/] Maximizing transactions between utilities in the Pacific Northwest and those in the Pacific Southwest will promote these objectives. Second, BPA should provide Northwest utilities firm two-way transmission service to enable firm capacity and energy exchange arrangements with Southwest utilities, in addition to nonfirm, interruptible transmission service which only enables economy energy transactions. Third, BPA's charges for such services should be cost-based and should be allocated in an equitable manner to avoid one service subsidizing another service.[2/]

In the current 1983 BPA rate hearings, Edison has been concerned by BPA's proposals to increase charges for wheeling non-BPA energy on the Intertie to subsidize other classes of service. Federal and nonfederal transactions on the Intertie should pay the same rates for the same service, and all such charges should collect only the cost of providing the service.[3/] The federal government, through FERC, has a policy of supporting cost-based rates and opposing value-based rates.[4/] For these reasons, BPA's recently proposed "lost opportunity" charge of 6 mills/kWh for firm service on the

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1/ Section 2 of the Pacific Northwest Electric Power Planning and Conservation Act (16 U.S.C. §839) establishes those goals for BPA. See also the Public Utilities Regulatory Policies Act (16 U.S.C. §2601 et. seq.); and §202 (a) of the Federal Power Act (16 U.S.C. §824a (a)).

2/ 16 U.S.C. §839e (a) and 16 U.S.C. §§838g and 838h.

3/ See Exhibit Nos. WP-83-E-CE-02, at pp. 9-11, WP-83-E-CE-02S3, and WP-83-E-CE-02S4 filed in the 1983 BPA rate case (BPA file nos. WP-83 and TR-83).

4/ Please see, U.S. Department of Energy, Bonneville Power Administration, 23 FERC ¶61,342 at 61,740 (1983) and U.S. Department of Energy, Bonneville Power Administration, 23 FERC ¶61,378 at 61,798 (1983).

Intertie has been viewed by Edison with great alarm. Such rate-making policy directly results in a restrictive Intertie access policy designed to extract revenue for sales which BPA has not made. At the last possible opportunity, BPA staff withdrew the "lost opportunity" charge from consideration in the 1983 BPA rate case, but left the possibility open that such a proposal or other restrictive Intertie access policies may be adopted later as a result of this Intertie access policy development process.[5/] BPA should not use its monopoly position over Intertie transmission to unfairly restrict Intertie access and pass its deficits on to California ratepayers.

II.

Specific Comments on Intertie Access Policy Issues

The following comments address the five Intertie access policy issues identified on page 7 of BPA's July 15, 1983 notice. In some instances the issues, as drafted by BPA, are in general terms which may be subject to more than one interpretation. Where the issue appears ambiguous or open ended, clarifying interpretation of the issue has been added.

A. How Can BPA Best Determine The Amount Of Intertie Capacity, If Any, Which Is Excess To The Government's Needs?

The "Government's needs" are considered by Edison to be contractual commitments made by BPA to provide or transmit on the

5/ See 1983 BPA Rate Proposal, Evaluation of the Record at PP. 284-286 (August 1983)

Intertie certain amounts of generating capacity and energy. BPA's excess Intertie capacity should be determined by adding (1) the capacity, in kilowatts, associated with BPA's firm power arrangements (i.e., purchase, sale, and exchange) with Southwest utilities to (2) BPA's firm transmission service commitments, in kilowatts, to others, and subtracting this sum from BPA's share, in kilowatts, of the firm rating of the Intertie. While BPA must maintain sufficient transmission capacity for its own firm arrangements with Southwest utilities, long-term firm transmission service must also be provided by BPA to enable nonfederal Northwest entities to conduct transactions that are beneficial to such entities. Without such access, the open Intertie access policy established at the time of the formation of the Intertie, which is discussed below in response to Issue B, will be defeated.

B. How Can BPA Best Provide Access To Northwest Intertie Capacity Which Is Excess To The Government's Needs?

BPA should provide all Northwest entities access to the Intertie. BPA's function should be that of coordinating schedules, operating and maintaining transmission lines and substations, and billing Intertie users for service based on the cost of facilities used.

The best way BPA can provide Intertie access is to not hinder or obstruct access by others by adopting unnecessary or inappropriate procedures and requirements or by establishing rates for service that exceed the cost of providing the service. Access means, in effect, having a transmission path to or from

the points where the Pacific Northwest interconnects with the Pacific Southwest. These points are Malin at the California-Oregon border ("COB") for the AC lines and the Nevada-Oregon border ("NOB") for the DC line.

Almost all transactions at COB or NOB are sales from the Northwest to the Southwest. Any attempt by BPA to control access by others to the Intertie would be an attempt to control sales by others at COB and NOB. Such control would be a manipulation of the Intertie marketplace and is inconsistent with the principles and contracts under which the Intertie was constructed.

The Department of the Interior report to Congress recommending construction of the Intertie is replete with statements which demonstrate that both the government and the nonfederal entities in the Northwest contemplated that open access for nonfederal entities in the Northwest to the Intertie would be provided on BPA's portion of the Intertie facilities. 6/ BPA assured both public and private utilities in the Pacific Northwest that they would be allowed access over BPA's portion of the Intertie to the Pacific Southwest markets proportionate to their respective surpluses. 7/ The purpose of this assurance of access is very clear.

6/ Department of the Interior, Report to the Appropriations Committees of the Congress of the United States Recommending a Plan of Construction and Ownership of EHV Electric Interties Between the Pacific Northwest and Pacific Southwest (Comm. Print 1964)

7/ Id. at p.27 and p.34

> "The broad participation of all parties concerned with the sale or purchase of Northwest surplus power provides built-in protection against anyone monopolizing either use of the line or the resources or the markets." 8/

The historical development and contractual arrangements established regarding the Intertie mandate that BPA allow access to all entities in the Pacific Northwest with surplus power to sell. BPA should not in any way restrict other entities from access to the Intertie or attempt to control transactions that take place over the Intertie. In hearings before FERC, Charles F. Luce, Bonneville Power Administrator at the time the Intertie was conceived and constructed, stated that BPA promised nonfederal entities full access to the Intertie. He said that BPA had

> "an intense campaign for Bonneville to build every major transmission line in the Pacific Northwest. We fought the efforts of the private companies to build what we regarded as too small and inadequate transmission lines. We said let us build them right and big enough and we will let you on these lines as though they were your own. We will not block you out because we own the lines..." 9/

BPA's proposal to charge for firm transmission service based on "lost opportunity" cost is, in effect, using the ratemaking process to restrict access by others to the Intertie and is contrary to applicable law. For example, the Northwest Regional Preference Act, Public Law 88-552, 16 U.S.C. §837, et seq., (1964) provides not only that BPA must provide common carrier

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8/ Id. at p. 40

9/ Testimony before FERC in Docket Nos. E-7796 and E-7777 (Phase II), January 14, 1981, at transcript page CH-38, 610

service on its transmision system, but that no contract for firm transmission service can be affected by subsequent increases in BPA requirements for transmission of federal energy. Section 6 provides:

> "Any capacity in Federal transmission lines connecting, either by themselves or with non-Federal lines, a generating plant in the Pacific Northwest or Canada with the other area or with any other area outside the Pacific Northwest, which is not required for the transmission of electric energy, or the energy described in Section 9, shall be made available as a carrier for transmission of other Federal energy between such areas..... No contract for the transmission of non-Federal energy on a firm basis shall be affected by any increase, subsequent to the execution of such contract, in the requirements for the transmission of Federal energy." (Emphasis added)

The House and Senate Reports which accompanied the statute analyzed the relevant portion of Section 6 with the following language:

> "In determining the existence of capacity excess to the needs of the Government, Federal needs reasonably foreseeable may be included, but the secretary may not decline to enter into a wheeling agreement merely because he may have energy available for sale to serve the same load."10/

The Senate Report further stated that the intertie lines "would be operated as common carriers, with excess capacity available to non-Federal utilities at cost."11/

10/ BR Rep. No. 590, 88 Cong. 2d Sess., Reprinted 1964, USCCAN 3342, 3350; Senate Report No. 122, 88 Cong. 1st Sess. 12 (1963).

11/ Id. at 4.

C. What Consideration Should BPA Require To Grant Transmission Rights To Intertie Capacity Otherwise Needed By The Government? How Should The Rights Of Other Entities, Such As Parties To The Exportable Agreement, Be Considered?

In the first question above, "consideration" is interpreted as meaning monetary payment. "Capacity otherwise needed" by the Government could mean capacity needed to satisfy BPA's contractual commitments and obligations, as defined by Edison in Issue A, or additional capacity that would be useful to BPA for transmitting BPA's surpluses on a day-to-day or week-to-week basis. Edison assumes that the latter interpretation is what was intended.

BPA should require the requesting entity to pay BPA's cost of service, based on the facilities used, as consideration for granting transmission rights. Value-of-service or lost-opportunity charges should not be the basis for any payment. FERC, as noted above, opposes value-of-service rates, and probably will react similarly to lost-opportunity charges. BPA should cease consideration of such charges. The desire by BPA to set such rates for wheeling transactions emphasizes BPA's efforts to maintain a monopoly position in the Northwest and on the northern end of the Intertie.12/

12/ Please see Exhibit No. WP-83-E-CE-02, at pp. 10-11 filed by Edison in the 1983 BPA rate case (BPA File Nos. WP-83 and TR-83)

services provided. Such restrictions and charges are unfair to ratepayers and do not promote the efficient use of the nation's renewable resources. In order to fulfill BPA's guarantee of equal access for Northwest entities not owning Intertie facilities as testified before FERC by Charles Luce (see page 6 hereof), BPA should offer Intertie access to preference and non-preference entities alike, on a non-discriminatory basis, consistent with the rights and principles established by Congress, as cited above.

Among the various services which BPA should provide on the Intertie, firm transmission service should have the highest priority, because firm service is essential for capacity sales and diversity capacity exchanges. Firm transmission service is needed to deliver a firm resource that a purchaser is depending upon for continuity of service to its customers, and that purchaser is paying more for this higher quality service. A lower priority should be given to nonfirm transmission service because associated resource transactions are interruptible on minimum notice and are not essential to service continuity.

E. What Terms Of Service Should BPA Offer For Transmission On the Intertie?

BPA should offer firm two-way service on the Intertie at prices based on the cost of the facilities involved. Firm resources transmitted using such service would have a significantly reduced value if BPA does not commit to providing at least a five-year advance notice, or a longer negotiated advance notice, for termination of firm transmission service. A five-year period is the minimum time needed to replace a firm

purchase if another purchase is not available. BPA should also offer interruptible transmission service to enable nonfirm economy energy transactions.

III.

CONCLUSION

Edison appreciates this opportunity to participate in the development of BPA's Intertie access policy. BPA should give consideration to these comments in establishing an Intertie access policy that is fair to all entities affected. BPA should provide all entities, both federal and nonfederal, opportunity for access to the Intertie, and in so doing, BPA should not dictate or interfere with the transactions that take place on the Intertie except as required for maintenance and safety. Both of these objectives were mandated by the original Congressional authorization of the Intertie, and are consistent with the policies of FERC. These objectives can be achieved by BPA providing transmission service at prices based on cost on a non-discriminatory basis to Northwest entities, whether federal or nonfederal, as they enter into power purchase, sale, or exchange agreements with Southwest entities.

Southern California Edison Company

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L. D. HAMLIN
MANAGER OF POWER CONTRACTS

TELEPHONE
(213) 572-2107

SCE

August 30, 1982

Ms. Donna L. Geiger
Public Involvement Coordinator
Bonneville Power Administration
Post Office Box 12999
Portland, Oregon 97212

Dear Ms. Geiger:

Subject: BPA Transmission Policy - File TrP-1

This letter is in response to Mr. Johnson's May 21, 1982 notice to all BPA customers that BPA intends to reopen the formal process of revising its transmission policy. Southern California Edison was not involved in the initial review process and meetings held in 1981; therefore, the following remarks are based on issues briefly described in the May 21, 1982 notice.

In the May 21 notice, under "Scope of Issues for Proposed Transmission Policy," BPA has identified three general areas to be addressed by the final transmission policy. Edison believes that, in addition to efficient utilization of Pacific Northwest transmission resources, "BPA's objectives for wheeling services" (the first general area) should include furthering national objectives of minimizing oil consumption and conserving energy by maximizing transactions among utilities in the Pacific Northwest and Pacific Southwest.

Concerning the second policy area, "types of transmission services BPA intends to offer and their major features," Edison would encourage BPA to provide the Pacific Northwest utilities firm two-way transmission service to facilitate firm capacity and energy exchange arrangements with Pacific Southwest utilities, in addition to non-firm, interruptible transmission service which generally only enables economy energy transactions. Charges for such services should be cost-based and allocated as equitably as practicable to avoid one service subsidizing the other.

"Compensation methodology for transmission losses," the final identified policy area, should be based on actual losses to the extent they can be determined with reasonable accuracy. Most importantly, Edison would support BPA transmission policy that promotes development of increased transmission capacity between the Pacific Northwest and California.

We appreciate the opportunity to participate in the development of BPA's transmission policy and look forward to reviewing drafts of proposed policy and generic contracts in October of this year. Such drafts will enable us to better comprehend BPA's transmission policy objectives and their impacts, and thereby provide more specific, meaningful comments.

Sincerely,

L. D. Hamlin
Manager of Power Contracts

Southern California Edison Company

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EDWARD A. MYERS, JR.
VICE PRESIDENT

TELEPHONE
818-572-2001

SCE

March 16, 1984

FILE COPY

Mr. Peter Johnson
Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

Dear Mr. Johnson:

Subject: Pacific Intertie Access Policy

I am writing to you personally to convey the comments which Southern California Edison Company is submitting to the Public Involvement Office regarding the Intertie Access Policy discussion paper. Our attached comments are lengthy, but in brief summary amount to an expression of alarm at the policy we anticipate Bonneville will adopt.

We seriously question Bonneville's legal authority to implement a policy whereby Bonneville, in the name of implementing its "marketing program," may pre-empt Intertie transactions by other Northwest entities. The contemplated Intertie Access Policy, coupled with Bonneville's bid to be sole agent for interregional transactions, has a profound effect on our Company and its customers.

We urge you to institute the more formal hearing and decision-making process outlined in Section 6(c)(1) of the 1980 Regional Act. We hope that through such a process Bonneville will become aware of the impropriety of an anticompetitive Intertie Access Policy.

Failing that, it may be appropriate to seek Congressional guidance before Bonneville, Edison, and the other affected utilities in the Northwest and California become embroiled in costly and time-consuming litigation.

I would appreciate hearing your views on this approach to resolving this matter.

Sincerely,

Edward A. Myers, Jr.
Vice President

Attachment

cc: D. L. Geiger - BPA
C. R. Imbrecht - CEC
W. T. Bagley - CPUC
N. E. Nichols - LADWP
N. H. Daines - PGandE
R. W. Watkins - SDG&E
R. B. Lisbakken - PP&L
G. E. Bredemeier - PGE
R. G. Bailey - PSP&L
G. P. Prekeges - WWP
M. S. Schultz - ICP
J. P. Recchi - PGP
R. W. Hardy - PNUCC

UNITED STATES OF AMERICA

BEFORE THE BONNEVILLE POWER ADMINISTRATION

In the Matter of the Bonneville Power Administration Intertie Access Policy.	))))	File No. TIE-1

Comments of Southern California Edison Company
on the BPA Intertie Access Policy

March 16, 1984

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UNITED STATES OF AMERICA

BEFORE THE BONNEVILLE POWER ADMINISTRATION

In the Matter of the Bonneville Power Administration Intertie Access Policy.	))))	File No. TIE-1

I.

INTRODUCTION

The comments of Southern California Edison Company ("Edison") on the Bonneville Power Administration's Intertie Access Policy are submitted in response to Bonneville's February 15, 1984 request for comments on the issues identified in its Discussion of Policy Issues ("discussion paper"). Our comments will also address Bonneville's February 29, 1984 letter ("agency letter") to Northwest and Canadian utilities wherein Bonneville has offered to act as agent for interregional transactions, inasmuch as such agency letter touches on Intertie access questions raised in the discussion paper. Edison's September 16, 1983 "Comments on Intertie Access Policy" are incorporated herein by reference.

II.

SUMMARY

It is Edison's position that Bonneville is not authorized to allow its power marketing program to pre-empt other sales over the Intertie in either the context of administrating

an Intertie access policy or as the agent for interregional sales. Bonneville cannot cure its economic ills by controlling Intertie access; it must come to terms with the reality of the competitive nature of the alternative sources of energy available to Edison, and forego proposing noncompetitive rates. Finally, Edison believes Bonneville should proceed more cautiously in considering this potentially unlawful Intertie access policy. We recommend, at the very least, that Bonneville institute a more formal hearing and decision-making process. It may also be appropriate to seek Congressional guidance in this matter.

III.

SPECIFIC COMMENTS ON INTERTIE ACCESS POLICY ISSUES

A. Bonneville Is without Legal Authority to Allow Its "Power Marketing Program" To Displace Others' Use of the Intertie

Although Bonneville has not yet revealed its Intertie Access Policy, it seems apparent from the legal analyses proffered in both the discussion paper and the agency letter that Bonneville intends to control the Intertie in order to implement the "Administrator's power marketing program." Edison believes that in so doing Bonneville would be exceeding its Congressional mandate and impermissibly disregarding the impact on Edison's customers. Control of Intertie access must not create a situation inconsistent with the antitrust laws and the Federal Power Act, and cannot focus only on Pacific Northwest interests.

Bonneville, as custodian of the Northwest portion of the Pacific Intertie, must have a solid basis for the actions which it intends to implement. Based upon Bonneville's representations to date, Edison believes that Bonneville's contemplated policy is without statutory authority.

Edison questions the legal analysis which Bonneville has outlined in its discussion paper, i.e. that Section 9(i)(3) of the 1980 Regional Act permits Bonneville to restrict Intertie access to those transactions which do not conflict with Bonneville's power marketing program. Bonneville has characterized any "Intertie transmission arrangements [that] supersede or displace BPA transactions" as being adverse to Bonneville's marketing program. Bonneville relies on this analysis to justify an Intertie Access Policy that denies access for any power sale priced below Bonneville's rates. This is referred to by Bonneville in the discussion paper as a "new standard" for providing transmission service.

The Regional Act did not contemplate, nor does it authorize, this "new standard." The language of Section 9(i)(3) upon which Bonneville relies provides:

> "the Administrator shall furnish . . . transmission . . . unless he determines [it] . . . cannot be furnished without substantial interference with his power marketing program . . ."

Presumably, Bonneville will claim, as it has in the discussion paper, that transactions over the Intertie which displace its own sales "substantially" interfere with its power marketing program. This analysis is contrary to the Congressional intent

of the 1964 Regional Preference legislation as enunciated in the House and Senate Reports accompanying PL 88-552.:

> "In determining the existence of capacity excess to the needs of the government, federal needs reasonably foreseeable may be included, but the secretary may not decline to enter into a wheeling agreement merely because he may have energy available for sale to serve the same load."
> (Emphasis added)

HR Rep. No. 590, 88 Cong. 2d Sess., Reprinted 1964, USCCAN 3342, 3350; Senate Report No. 122, 88 Cong. 1st Sess. 12 (1963).

Bonneville cannot claim that the competition for California markets which was created by the Intertie--and which was acknowledged by Congress and rejected as a grounds for Bonneville denying access--now constitutes a "substantial interference with [its] power marketing program."

B. Bonneville's Contemplated Agency Arrangements Violate the Policies of the 1964 Regional Preference Act and the Antitrust Laws

The agency letter incorporates the rationale of the pre-eminence of Bonneville's power marketing program. Section 9(i)(1) of the Regional Act is interpreted by Bonneville as allowing Bonneville to give priority in use of the Intertie to those of its Northwest customers which commit to purchase additional firm power from Bonneville. Bonneville would then, and possibly only then, market such customers' surplus energy to California.

Bonneville's reliance on the Regional Act is misplaced. While Bonneville relies heavily on Section 9(i)(1) to

justify providing Intertie access only to interregional sales that do not conflict with Bonneville's power marketing efforts, it ignores that same section's admonition against dispositions which are "in conflict with . . . the policies of this Act and other applicable laws."

The arrangements Bonneville seems to be contemplating under its Intertie Access Policy and as agent for interregional transactions conflict with the policies of other applicable laws. As noted above, Bonneville's position is in violation of the Congressional intent of the 1964 Regional Preference Act. It is also contrary to the primary purpose of having Bonneville oversee the design and construction of the northern portion of the Intertie, namely, to assure sufficient capacity to guarantee full access for sales by non-federal Northwest entities. Edison has discussed Bonneville's assurances of such access at length in its September 16, 1983 response to the "Notice of Intent to Develop Policy." The testimony before FERC of Charles Luce, Bonneville Administrator when the laws and contracts governing the Pacific Intertie were developed, is worth repeating: He testified that Bonneville was engaged in

> "an intense campaign for Bonneville to build every major transmission line in the Pacific Northwest. We fought the efforts of the private companies to build what we regarded as too small and inadequate transmission lines. We said let us build them right and big enough and we will let you on these lines as though they were your own. We will not block you out because we own the lines . . ."

Testimony before FERC in Docket Nos. E-7796 and E-7777 (Phase II), January 14, 1981, at transcript page CH-38, 610.

Perhaps most significantly, Bonneville's position regarding restricting Intertie access and marketing surplus Northwest power creates a situation inconsistent with the Federal antitrust laws. The Northwest entities apparently seek to be sheltered from antitrust violations by using Bonneville as sole agent. However, Bonneville's proposed actions under this arrangement, if instituted by a private entity, would at the very least amount to civil violations of the antitrust laws. Edison expresses no opinion at this time, however, as to the legality of the activities of other utilities in the Northwest with respect to the proposed agency arrangements.

C. The Contemplated Access Policy and Agency Arrangements Are Discriminatory in Nature

Edison is troubled by the overt discriminatory tone of Bonneville's contemplated policy. Not only is Bonneville adversing the many competing sellers of electricity in the Pacific Northwest by giving priority to its own power marketing objectives, but it is also discriminating against the citizens and ratepayers in Edison's service area. As part of its continuing effort to maintain artificially low prices for the Pacific Northwest region, Bonneville will use subsidized rates for Northwest customers, while attempting to force upon Edison rates which far exceed the cost of service.

While neither the discussion paper nor the agency letter so states, Edison anticipates that Bonneville contemplates agency transactions which will also discriminate against the vast

majority of California ratepayers because they are served by investor-owned utilities. It appears that Bonneville may determine that preference will attach to all power marketed by Bonneville, irrespective of whether it was federally-generated or acquired pursuant to an agency relationship from another utility. Fully three-quarters of the California citizenry are served by investor-owned utilities. By imposing preference to sales of non-federal generation, Bonneville may be depriving these California citizens of their fair share of whatever benefits may be obtained from interregional transactions. As an agency of the United States Federal Government, Bonneville has an obligation to be fair in its dealings with consumers in all states.

Bonneville appears to be laying the groundwork for such discrimination or attempting to justify its control of the northern portion of the Intertie by asserting in the discussion paper that "access to the southern end of the Intertie is limited to a small number of utilities that have ownership rights to fixed portions of capacity." This is extremely misleading. Approximately 99% of all Californians are served by the nine utilities with firm Intertie rights and receive the economic benefit of Pacific Intertie transactions through rate design and the applicable state and federal fuel and purchased power adjustment clauses.

In addition, Bonneville's actions appear to be inconsistent with the position of the Federal Energy Regulatory

Commission. In connection with the Administrative Law Judge's Order approving cancellation of the Seven Party Agreement, Pacific Power & Light Co., Docket No. E-7796, 22 Ferc ¶ 63,103 (March 21, 1983), the Northwest investor-owned utilities were ordered to file statements indicating that they would not discriminate in sales to California. This Order was upheld by the Commission. Pacific Power & Light Co., Opinion No. 175, 23 FERC ¶ 61,402 (June 22, 1983). By compelling the Northwest utilities to join with Bonneville in sales that may be subject to preference, or be preempted from participating in sales using the Intertie, Bonneville is placing these utilities in the position of violating their commitment ordered by the FERC.

D. Bonneville Cannot Solve Its Economic Problems by Controlling Intertie Access and Interregional Sales

Bonneville has cited its inability to sell surplus power at firm rates as a major contributor to its revenue shortfall. However, Edison believes that the problem has been in Bonneville rates and sales estimates. In its 1982 and 1983 rate cases, Bonneville has forecast far more surplus firm power sales than are economically achievable in light of the resource surpluses and planned resource acquisitions in the Southwest.

There are certain economic realities which Bonneville cannot afford to ignore. First and foremost, market restraints designed to compel purchases of Bonneville energy at artificially high rates will not work. Bonneville's energy sales to Edison must compete with other California and Southwest resources as well as other Northwest and Canadian energy.

In 1982 Edison added the third 500 kV line from southern California to Arizona and this year other entities will add a fourth line, increasing the ability of California to obtain low cost coal-fired and nuclear energy resources from sources east of southern California. In addition, the Intermountain Power Project DC transmission system will be in operation within a few years, directly interconnecting southern California with the coal-fired energy market in Utah. In the last year, 2200 MW of new nuclear generation at San Onofre has become operational. Within the next year, another 2100 MW of nuclear generation will be in operation at Diablo Canyon. Palo Verde will add 3700 MW more by 1987. These seven nuclear units will provide an additional 8000 MW of base-load generation with energy costs at or below Bonneville's current spill rate. As a result, Bonneville's energy sales to the Southwest will naturally decrease, especially during off-peak hours, unless Bonneville decreases its nonfirm energy rates to be competitive with surplus sales made by owners of these and other units.

Bonneville should also recognize that Edison must develop its own reliable, long-term future generation. For example, Edison has embarked on a program to develop renewable resources within its own service area to help supply needs well into the next century. Edison believes it cannot rely on Bonneville to provide these long range resources because of the 60 day/60 month callback requirements.

Bonneville must also be more realistic in its rate design. Since the 1979 rate case, Bonneville has based its nonfirm energy rates on its perception of the value of such energy to the purchaser, regardless of the cost incurred by Bonneville in supplying the energy. Such a marketing strategy is inconsistent with the laws governing Bonneville's nonfirm energy rate design set forth in Section 7(k) of the Regional Act, and with the policy of protecting competition enunciated in the Federal antitrust laws. In fact, Congress in each of the last two years has refused to allow the Federal power marketing agencies the use of appropriated funds to study value-based rates.

Bonneville's rates, including nonfirm energy rates and surplus firm power rates, should be based on cost of service, not value to the purchaser, and must not discriminate in price against out-of-region purchasers. To design rates and establish policies which assume that Bonneville can force Edison to pay higher prices will only result in Bonneville selling less power to Edison, as Edison is forced to seek more economical and reasonable alternatives. Furthermore, using an Intertie Access Policy to block transactions with the non-federal utilities in the Northwest that are otherwise willing to sell competitively-priced energy to Edison would result in economic hardship for these Northwest utilities' ratepayers, in addition to creating a situation inconsistent with Federal antitrust laws.

IV.

CONCLUSION

Edison is concerned with Bonneville's haste to implement a policy which may well be violative of law. Although no one has yet seen a draft Intertie Access Policy, Bonneville plans to have an interim policy in place this summer, pending preparation of an Environmental Impact Statement. Should Bonneville determine it is not necessary to prepare an EIS, it will implement a final policy this summer. Edison can only assume that any policy, be it interim or final, will have a profound effect on all utilities in the Northwest and California. Given the far-reaching consequences of the policy Edison envisions, Edison recommends that Bonneville institute the more formal hearing and decision-making process described in Section 6(c)(1) of the Regional Act, to determine the propriety of instituting the policy.

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August 13, 1984

Refer to: P

Mr. Peter T. Johnson
Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

Dear Mr. Johnson:

Subject: Proposed Near-Term Intertie Access Policy

As requested by your letter dated July 13, 1984, enclosed are Southern California Edison Company's ("Edison") comments regarding BPA's proposed near-term Intertie Access Policy. As you can see from our detailed comments, we have serious concerns regarding the proposed policy and believe many of these concerns should be shared by BPA and others in the Pacific Northwest.

Because of these concerns which involve operational, legal, environmental and equity questions, we strongly urge BPA to:

(1) Delay implementation of the Intertie Access Policy until adequate discussions and hearings can be held to fully consider all aspects of any Intertie access policy. Due to the potential magnitudes of impacts and the complexity of issues, a near-term policy should not be hastily established while a multitude of complex questions are left to be sorted out in anticipation of a longer term policy.

(2) Consider the interrelationship between this proposed Intertie Access Policy, appropriate rate levels, Spill vs. Standard Rate questions, potential additional transmission between California and the Pacific Northwest (e.g. 3rd AC line and HVDC expansion), the potential long term "agency sale," and other

issues as a whole, rather than attempting to address one piece of an interrelated whole in isolation. BPA should consider beginning discussions among interested parties to arrive at an overall fair and equitable solution to these issues.

(3) Publish a revised news release and Issue Alert (with the same degree of distribution as the original) setting forth both sides of the issues regarding intertie access and corrected data. As noted in our detailed comments, we believe the documents originally issued by BPA contained significant factual errors and set forth a clearly biased view.

The effect of this proposed access policy on Edison, on its ratepayers and on the Pacific Northwest customers of BPA would be quite significant. For this reason we believe it is important to have a frank and open discussion of these issues between Edison and BPA senior management. We also stand ready to work with representatives of BPA toward the goal of arriving at fair and equitable solutions to the complex issues which face us and look forward to hearing your further ideas on this matter.

Sincerely,

Edward A. Myers, Jr.
Vice President

Enclosure

cc: D. L. Geiger - BPA
C. R. Imbrecht - CEC
W. T. Bagley - CPUC

UNITED STATES OF AMERICA

BEFORE THE BONNEVILLE POWER ADMINISTRATION

In the Matter of the Bonneville Power Administration's Proposed Near-Term Intertie Access Policy.	))))	Reference: P

Comments of Southern California Edison Company on BPA's Proposed Near-Term Intertie Access Policy

August 13, 1984

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I.

INTRODUCTION

The Comments of Southern California Edison Company ("Edison") on the Bonneville Power Administration's ("BPA") proposed near-term Intertie Access Policy are submitted in response to BPA's July 13, 1984, request for written comments on the proposed policy. Edison's comments also address the press release of July 13, 1984 which accompanied the proposed Intertie Access Policy, and Bonneville's July, 1984 "Issue Alert" entitled "Update: BPA's New Intertie Access Policy." Edison's September 16, 1983 and March 16, 1984 "Comments on Intertie Access Policy" are incorporated herein by reference.

Edison objects to the haste with which this policy is being implemented. On July 13, 1984, BPA issued a draft policy that is significantly different than its February 15, 1984, Discussion Paper, BPA's only previous indication of what the Intertie Access Policy might include. BPA proposes to implement this policy on August 21, 1984, only eight days after the closing of its comment period. Furthermore, this important policy would

therefore be enacted after only a 30-day comment period, two informal question and answer sessions with BPA personnel, and an informal meeting among operators. There has been no formal hearing process, no opportunity for meaningful questioning or comment, no real ability to participate in the process of developing this policy, and no environmental review.

By submitting these Comments, Edison is not agreeing that the process followed by BPA is appropriate. Nor do these Comments represent a comprehensive analysis of the substantial impacts that this policy could be expected to have on Edison and its ratepayers. It has been impossible, given the severe time constraints under which BPA would have us operate, and the absence of a truly complete administrative process, to comment adequately on this very important policy proposal.

II.

SUMMARY

The draft near-term policy involves a plan for allocation for which BPA has no authority to engage in, and which contains the concept of imposing non-competitive rates with attendant environmental and anticompetitive concerns. Consequently, the proposed policy and the applications of rates are interrelated and will be addressed in these Comments.

In BPA's "Issue Alert" of July, 1984 describing the background of this most recent draft, BPA summarizes three fundamental premises which justified the approval of the Intertie

arrangement by Congress and the construction of the Pacific Intertie:

> "The first idea behind the Intertie was the efficient use of resources";
>
> "The second idea behind the Intertie was to benefit ratepayers in both regions"; and
>
> "The third idea behind the Intertie was equitable sharing of benefits."

While these concepts may have been expressed by BPA and by Congress when the Intertie arrangements were formulated and approved, Edison believes that BPA has misinterpreted the application of those principles to current facts. Edison believes that implementation of the draft policy would not bring about results consistent with these principles but would serve rather to frustrate them.

As will be discussed below, it appears that a principal interest motivating the present draft near-term policy is a desire to hold down rates within the Pacific Northwest by raising the price for nonfirm energy sold to California. This attempt to raise nonfirm energy rates without the benefit of a FERC proceeding is unfair, unjust and in apparent conflict with existing statutes.

The rates which BPA seeks from California by the proposed Intertie Access Policy would be far in excess of BPA's cost of service and would amount to further subsidizing rates for Pacific Northwest customers from the pockets of California

customers, amounting to substantial discrimination against ratepayers in California.

The draft policy would, furthermore, go well beyond increasing BPA's rates. As expressed in the July, 1984 Issue Alert, it is intended to increase the rates for energy sold to California by other Pacific Northwest utilities. This purpose and effect are clearly beyond the authority of BPA and may raise substantial legal difficulties for other Pacific Northwest participants.

The draft policy would, furthermore, not benefit ratepayers in both regions. On its face, it is intended to benefit Pacific Northwest ratepayers at the expense of California ratepayers and thus would be contrary to one of the central "premises" of Intertie operation. It would, in fact, be harmful to both regions by severly limiting the very kinds of transactions which have, throughout the history of the Intertie, been recognized as the highest and best use: seasonal and diversity exchanges. The draft policy would prevent such exchanges from taking place in the future since they would not be classified as "firm contracts" and would thus be precluded from obtaining assured transmission service on the Intertie. Short-term firm capacity sales, such as BPA's proposed Olympic sale, could not be consummated.

The draft policy would result in an inefficient use of resources for both regions by effectively preventing a California buyer from acquiring the most economic Pacific Northwest resource

which might be available. Clearly this is a constraint on a free and open marketplace which is contrary to this nation's policies concerning competition.

This draft policy would require a California entity to purchase thermally-generated power from a Pacific Northwest seller with a Pacific Northwest transmission allocation, even when another utility in the Pacific Northwest had available more efficient (and environmentally more desirable) hydro generated resources. This is both inefficient and contrary to a national policy of minimizing environmental impacts and of preserving our precious natural resources.

In sum, Edison believes that there are serious defects in the proposed near-term policy and that BPA should proceed more cautiously. We recommend, and hereby request that BPA delay implementation of this policy, institute a proper hearing and decision making process and give this matter adequate consideration before instituting such a significant change in Intertie operation.

III.

SPECIFIC COMMENTS ON PROPOSED INTERTIE ACCESS POLICY

A. The Issuance of the Proposed Intertie Access Policy Is Not Authorized by Law.

Edison has indicated in the Introduction to these Comments that it has been denied due process in the promulgation of the proposed Intertie Access Policy. The policy, as proposed,

would undermine Edison's contractual relationships with entities in the Pacific Northwest and Canada; degrade Edison's investment in the Intertie; have an undocumented impact on the environment; and violate those Congressional mandates which underlay the building of the Intertie. All of this is being attempted by an informal procedure: a two day question and answer session; a 30-day comment period; another question and answer session where, with one exception, the topics for discussion that day were announced orally at the beginning of the meeting; and a meeting among operators from both regions. Edison submits that this informal process is not adequate.

In addition to this denial of due process, Edison has other specific legal concerns regarding the proposed policy.

(1) The Intertie Access Policy Should Be Subject to the 7(i) Rate Procedures of the Regional Act.

BPA's proposed Intertie Access Policy represents a change in the availability and implementation of its transmission and wholesale power rates. As an integral part of the implementation of BPA's rates, the proposed Intertie Access Policy must therefore be subject to the procedural requirements of Section 7(i) of the Regional Act which, among other things, requires BPA to hold formal hearings on a proposed change in rates, permits interested parties to cross-examine witnesses and offer testimony and exhibits in response to the proposed change, and requires FERC confirmation and approval prior to implementation. No Section 7(i) proceedings have been held.

BPA's proposed Intertie Access Policy would create substantial changes in BPA's current practices of making transmission service available and the manner in which it markets its surplus power and energy. Although BPA has attempted to separate its proposed Intertie Access Policy from its rates, the inclusion of the economic override provision (section D.2.d. at 26) and the virtual exclusion of competition from extraregional utilities (section E at 27) demonstrate an intent to modify rates by limiting the competition with BPA sales of surplus firm power and nonfirm energy. In doing so, BPA would be better able to pursue its intent to maximize revenues from nonregional customers. Edison has argued in proceedings at BPA and currently before the FERC that such a policy is in violation of BPA's statutory requirement to base its nonregional nonfirm rates on the cost of providing service to nonregional customers. [Section 7(k) of the Regional Act, 16 U.S.C. § 839e(k).]

(2) The Proposed Intertie Access Policy Is Inconsistent with Section 7(k) of the Regional Act.

BPA is attempting to maintain an invisible barrier between the proposed Intertie Access Policy and its nonfirm energy rate design objectives. BPA states that its proposed Intertie Access Policy is intended not only to equitably allocate use of the Pacific Intertie but to also benefit Pacific Northwest ratepayers by assuring a more equitable division of benefits between California and the Pacific Northwest. (See July 13, 1984, press release, at 1 and the Issue Alert, at 1 and 7.) BPA

also suggests that the policy is justified on the basis that it would enable Pacific Northwest utilities with surpluses to market to increase their revenues from California sales (See, Issue Alert, at 6). In support of these additional objectives, BPA alleges that Congress authorized construction of the Pacific Intertie "to provide the lowest possible rates to Pacific Northwest consumers of Federal power." [49 F.R. at 30347 (July 30, 1984).] Such objectives are inconsistent with BPA's responsibilities as a Federal agency and its statutory obligations under Section 7(k) of the Regional Act to provide nonfirm energy to nonregional customers at the lowest possible rates. [16 U.S.C. §§ 839e(k), 825s.] Section 7(k) was added to the Regional Act to protect California and other nonregional customers of BPA from excessive rates for BPA's nonfirm energy. The costs BPA ascribes to nonregional nonfirm customers are really costs incurred by BPA to provide firm service to customers in the Pacific Northwest.

(3) The Proposed Intertie Access Policy Is Designed To Preclude Meaningful Competition and Violates the Policy of the Antitrust Laws.

Edison addressed the issue of BPA's obligations to abide by the policies of the Federal antitrust laws in its March 16, 1984 Comments. The proposed Intertie Access Policy would create a situation which is designed to preclude meaningful competition between non-Federal Pacific Northwest sellers. The proposed Intertie Access Policy has been designed specifically to

increase prices not only for BPA, but for other non-Federal Pacific Northwest sellers as well. BPA has candidly conceded that the purpose of the draft policy is to develop allocation procedures to increase revenues from California. According to the Issue Alert (at page 6), the "allocation of access should enable [BPA and other Northwest entities] to increase their revenue from California sales." In essence, BPA appears to be attempting to alter the very market forces which the antitrust policies are designed to preserve. When supply exceeds demand, prices fall. BPA's proposed remedy for falling prices is to artificially limit supply.

As to BPA itself, the proper forum for rate increases is the FERC, not a Pacific Northwest market allocation plan. The FERC is where it can be determined what costs are appropriate to recover.

As for the other Pacific Northwest sellers, BPA has no proper authority to attempt to increase rates charged by them at the expense of California ratepayers. Those rates are either within the jurisdiction of the FERC or set by the market. The rigid allocation plan has nothing to do with BPA's legitimate interests, and it is obviously not based on ownership rights of the Intertie participants.

For Pacific Northwest entities other than BPA, Intertie usage should not be artificially allocated; those who can economically sell should be able to do so. Congress has mandated that as to those sellers, market forces create the Intertie

allocation.

The BPA proposal also precludes competition by virtually eliminating BC Hydro and other Canadian sellers as sellers to California. As shown below, BPA does not possess the legislative authority to preclude the Canadian entities.

At one of the public forums, BPA indicated that to the extent a Pacific Northwest seller lowered its price and captured a larger share of the market on a given day, its allocation of Intertie capacity would be reduced for the following day. This is a clear example of trying to establish a Pacific Northwest price maintenance policy. Further, by denying firm transmission service BPA would also effectively eliminate all short-term seasonal peaking or diversity exchanges, which are significant and beneficial "products," in order to implement its intended price-maintenance policy. Clearly, each of these actions precludes competition and is inconsistent with the policies of the antitrust laws.

(4) BPA Has Not Complied with National Environmental Policy Act.

BPA has announced in both the proposed Intertie Access Policy and at the July 24-25, 1984, Comment Forum that it will implement the Intertie Access Policy as soon as possible after receiving comments. Although BPA has indicated that the proposed policy is a major federal action requiring environmental review, it has performed no environmental studies to evaluate the effects of the proposed policy to be implemented (Record of Public

Comment Meeting, p. 233, lines 8-9), and does not intend to publish any environmental documents until February, 1985. Implementation without such review is not in accordance with NEPA's mandate that environmental review be conducted at an early stage so that "environmental amenities and values may be given appropriate consideration in decisionmaking . . ." 42 U.S.C. § 4332(2)(B) and at a stage where the decisionmaker retains a maximum range of options. BPA's attempt to bifurcate the environmental review process is contrary to NEPA. The BPA review process may further contravene NEPA's statutory mandate for meaningful consideration of potential environmental impacts if BPA indeed implements the policy a mere week after the close of the comment period. Such a short period cannot provide an adequate opportunity for BPA to consider comments on potential environmental impacts and to modify the policy to mitigate the risk of such impacts, and creates a significant risk that serious environmental impacts will be overlooked.

(5) The Proposed Intertie Access Policy Improperly Excludes Canadian Power from Intertie Access.

The draft policy reveals no statutory authority for its provisions permitting the Administrator to discriminate against Canadian transmission requests in favor of Pacific Northwest entities, during times of Intertie transmission shortage. Pages 3 to 8 of the draft policy, entitled "authority for action," contain broadly inclusive references to the legislative history of various BPA statutes, considered together in an effort to

demonstrate that this authority was granted by implication. However, a reading of these references discloses that implicit authority to so discriminate cannot be found, and the statutes cited contain explicit mandates to the contrary, directing non-discriminatory access to transmission to all utilities. The mandate begins in the 1964 Act, "the Northwest Regional Preference Act," continues through the 1974 Act, "The Federal Columbia River Transmission System Act," and is not amended or repealed by the 1980 "Regional Act."

Exclusion of Canadian utilities from access to the Intertie would defeat one of the principal reasons for construction of the Intertie. In a letter to Congress regarding the Department of Interior's report on negotiations with non-Federal entities for construction of the Intertie, the Secretary stated: "As a vital side benefit, these lines would open California markets for Canadian entitlement power, and enable us to implement the United States-Canada treaty for the joint development of the Columbia River." [H.R. No. 1822, 88th Cong. 2d Sess. (1964) at 6.]

In fact, Section 6 of the Regional Preference Act (quoted on page 4 of the draft policy) compels the Federal government to make excess Federal transmission capacity available as a common carrier to transmit non-federal power for others.

B. BPA Has Published Inaccurate Information.

BPA has made inaccurate statements in media publications concerning its proposed Intertie Access Policy and

the benefits accruing to each region.

At page 2 of the draft policy, it is stated that for 1983, use of the Intertie benefited BPA by only $0.2 billion but that California utilities benefited by $1.0 billion, with "comparative benefits between regions heavily favoring the Southwest, by a ratio of about 4 to 1." These figures are purportedly calculated from data presented in Appendix B[1/] to the draft policy. BPA's Issue Alert purports to even more finely calculate the ratio as "81-19," stating that Northwest consumers received benefits in 1983 totaling $0.3 billion with California receiving $1.6 billion. These analyses are incorrect for a host of reasons.

At issue is not some ratio of benefits that changes each year. The point is that Congress intended both regions to benefit from the construction of the Intertie. Both regions have so benefited and will continue to benefit from transactions using the Intertie. BPA and the Pacific Northwest as a whole derive

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1/ The material contained in Appendix B is subject to FERC protective order in FERC Docket Nos. EF 81-2011-003 and EF 82-2011-003. BPA's use of this protected material is in violation of that order. Edison, PGandE, SDG&E and LADWP have demanded that BPA withdraw this appendix and not use the material provided in violation of the terms of the protective order.

revenues by selling a commodity that would otherwise be wasted, resulting in a net cash gain that helps hold down rates within the Pacific Northwest. California is able to reduce the cost of providing energy to its customers, a net cost savings that helps hold down rates within California.

BPA's concept of cost responsibility and interregional equity is not based on generally recognized ratemaking principles of cost causation. Rather, it seems based on a rough calculation of the assumed value of BPA nonfirm energy to its nonregional customers. None of BPA's statutory ratemaking standards under Section 7(k) of the Regional Act authorize it to base its nonfirm energy rates on the purported value of the energy to the purchaser or a purported equal division of benefits between the regions. Congress has recently reaffirmed its mandate for cost-based rates for BPA and expressed its disfavor for market-based or any other non-cost-based rates. (P.L. 98-50, Section 506.) BPA indicates that the proposed access policy would only allow it to recover its full costs. In fact, the proposed policy would shift a portion of the cost responsibility from BPA's firm customers to its nonregional nonfirm customers.

At pages 4-5 of the Issue Alert, BPA describes how the Pacific Northwest's current surpluses developed as a result of Pacific Northwest utilities constructing power plants based on poor forecasting. California ratepayers are not responsible for the Pacific Northwest's forecasting errors and should not have to pay for them as BPA implies in the proposed access policy.

At page 5 of the Issue Alert, BPA alleges that California utilities engage in tactics to force BPA to sell energy at the Spill Rate. Several points are noted in response: (i) Edison cannot justify purchasing additional capacity at this time, i.e., paying for unneeded capacity just to purchase economy energy; (ii) BPA's Surplus Firm Power rates are often not competitive with other sources of energy in Canada, the Pacific Northwest, California and the Pacific Southwest; (iii) BPA rarely offers nonfirm energy to California at times when BPA is not spilling, but instead sells nonfirm energy at the Standard Rate to Pacific Northwest utilities who often then sell their displaced resources to California at a price higher than BPA's Standard Rate; (iv) the Regional Preference Act (P.L. 88-552, 16 U.S.C. §§ 837, et seq.) restricts sales to California to energy not needed in the Pacific Northwest and which would be wasted if not sold to nonregional customers; and (v) most important of all, the Intertie has been virtually fully loaded for the past several years. BPA's allegation regarding the so-called "waiting game" is in actuality a complaint that California utilities have acted prudently as required by California and Federal law not by purchasing BPA energy at certain times, but instead having purchased energy from others at rates lower than those offered by BPA. It should be stressed that statutory constraints on BPA and the economy energy market in the west have impacted the timing, amount, and price of BPA's sales to nonregional customers, rather than any alleged tactics used by such customers.

At page 5 of the Issue Alert, BPA states that the average price paid for BPA Power by California utilities during 1983 was 9.15 mills/kWh, which was less than the "rock-bottom" Spill Rate of 11 mills/kWh. BPA ascribes this apparent anomaly to the capacity/energy exchange contracts that BPA states allows California utilities to purchase BPA energy for as little as 3 mills/kWh. This comparison by BPA of the average price paid by California versus the NF-83 Spill Rate is, at best, not thought out completely by BPA. First, the NF-83 Spill Rate set at 11 mills/kWh did not take effect until November 1, 1983. For ten months of 1983, the NF-2 Spill Rate set at 9 mills/kWh applied. During almost that entire ten-month period BPA sold nonfirm energy to California and Pacific Northwest utilities at the 9 mills/kWh Spill Rate, or at even lower rates to Pacific Northwest utilities under the EB-1 rate. It is not surprising that under those circumstances the average price paid by California utilities would be less than 11 mills/kWh. Second, Edison does not buy BPA energy for 3 mills/kWh. Under the capacity/energy exchange agreement, Edison must pay BPA 3 mills/kWh instead of returning energy in payment for capacity if BPA is in a surplus situation and cannot use the energy. Edison is not buying energy under those circumstances.

At page 6 of the Issue Alert, BPA states that it has received the necessary approvals to charge 18.5 mills/kWh for transactions on the Intertie. However, BPA has only received interim approval subject to refund pending final review by the

FERC. Edison and other California entities are currently challenging BPA's authority to price energy at that rate on the basis that it substantially exceeds BPA's costs of providing nonfirm energy to nonregional customers. Also on that same page of the Issue Alert, BPA asserts that it has established in rate hearings and court proceedings that BPA's system must be treated as a whole in determining the costs for any class of power. That issue is also currently being litigated by Edison and other California entities and has not been finally established as BPA implies.

C. Operating Restrictions May Be Harmful to the Environment and to National Interests.

BPA on page 2 of its Issue Alert, recognized the use of the Intertie for exchange arrangements. In this statement, BPA discusses the advantages of peaking and seasonal exchange arrangements. Recently, BPA has suggested the possibility of short-term firm Olympic sales. Now under the proposed policy, BPA would effectively do away with all new short-term capacity exchanges or sales by requiring that they be for a term of one year on a take-or-pay basis. Such a policy would not result in the efficient use of resources and is clearly inconsistent with the intent of Congress in approving the construction of the Intertie.

Edison believes that the proposed access policy would result in reduced utilization of the Intertie and an increase in the waste (spill) of Pacific Northwest renewable resources. This

is a natural result of the artificially higher prices that would be created by the policy. Because of minimum load conditions and other operating constraints Edison can only import a finite amount of energy. Under the proposed new policy Pacific Northwest energy would be less competitive with other sources available to California, and consequently there would be fewer transactions between California and the Pacific Northwest. BPA should carefully and reasonably assess this situation. A thoughtful study may show that implementation of this proposed policy would adversely affect BPA and Pacific Northwest revenues in the long run.

D. Business Relations between California and the Pacific Northwest are Adversely Affected.

As proposed, BPA's policy would provide assured access for firm contracts. However, as set forth in Section C.2 of the proposed policy, access would be granted only for power which would not create "substantial interference" with BPA's power marketing program. No guidelines are provided as to what constitutes "substantial interference" and, it appears, that this section would provide BPA with discretion beyond that reasonably necessary. Such discretion precludes the orderly development of contractual arrangements between buyers and sellers wishing to utilize the Intertie, since acceptance by BPA is not conditioned on reasonably predictable criteria. Additionally, it would appear impossible for BPA to monitor all its conditions on a continuing basis.

Although assured Intertie access is provided for existing contractual arrangements by Section D.1.e., statements by BPA personnel at public comment forums and other statements within the proposed policy indicate that existing arrangements may not be considered firm under certain circumstances or may have to meet certain criteria set forth in the policy. To change the rules under which these preexisting arrangements must operate would significantly alter the business relationship under which those arrangements were negotiated and may result in a loss or diminution of the mutual benefits originally sought by the parties. Existing contractual relationships should be accepted as they are and firm Intertie capacity granted to meet the obligations of the parties under those agreements.

In addition to those existing contractual obligations granted assured Intertie capacity which are listed in Section D.1.e. of the policy, Edison and Portland General Electric Company ("PGE") have entered into an exchange agreement in the early 1970s which should be listed. Although BPA may have intended that access be provided under PGE's Intertie rights, this firm agreement was in existence prior to the proposed policy and it should be given at least the same treatment as other preexisting contracts.

As proposed, the access policy would require that firm contracts be for a minimum of one year in order to qualify for assured delivery (Section D.1.b.). By denying firm transmission

for short-term firm transactions, the economic benefits from such transactions to both regions would be lost. BPA itself would be unable to realize any revenues which may be derived from its own short-term firm sales. Likewise, this same section appears to preclude exchanges of capacity and energy and capacity only sales. By so doing, the economic, reliability and environmental benefits of these types of transactions would be forfeited.

In response to questions posed at BPA's public comment forum, it was indicated that capacity purchases with relatively low capacity factors would be addressed on a case by case basis to determine whether or not assured transmission would be provided. Clear guidelines need to be established to enable the orderly development and negotiation of such contractual arrangements and to avoid lengthly delays which may occur in attempting to qualify such arrangements for firm transmission after the contractual arrangements have been made. Firm Intertie access needs to be provided for these types of arrangements for the same reasons set forth above.

Since BPA proposes to implement a two year policy to be superseded by a long-term policy, significant uncertainty is created for new long-term firm contracts. Among others, the "Agency Sale" to be proposed by BPA would be impacted by this development.

During the course of BPA's public comment forum, it was indicated that Section D.2.d. ("economic override") was included for the protection of California purchasers. It is not clear

that this would be the case and, in fact, the opposite may be true. Consequently, it is suggested that this section be removed from the draft and that free market forces be permitted to resolve any problems which may arise.

In determining which transactions are economical in Section D.2.d. of the draft policy, BPA has chosen "highest cost thermal resources it would otherwise operate" as the yardstick. Due to operational constraints, the availability of other purchases, minimum load constraints on specific generators and the electric system, environmental constraints and other factors, the highest cost thermal resource may not be the resource displaced by a Pacific Northwest purchase at any given time. For this reason, it should not be used as yardstick in determining the economics of any particular transaction. The proper yardstick, if indeed one is needed, should be the cost of alternative energy supplies in either the Pacific Northwest, Canada, Pacific Southwest or California.

BPA has included a list of terms that must be included in a new sales contract for it to be considered "firm" for purposes of being guaranteed Intertie access. With respect to the return of energy delivered with firm capacity or deliveries of Exchange Energy, such energy must be delivered to either the California-Oregon border (COB) or the Nevada-Oregon border (NOB). BPA is aware of the fact that Edison purchases most of the energy it delivers to BPA under its existing Exchange Agreement with BPA from Pacific Northwest utilities that can

deliver such energy to BPA's system at the point such Pacific Northwest utility interconnects with BPA's system. By requiring the Pacific Northwest utility to deliver such energy at COB or NOB, BPA would assess transmission service charges over its system to such utilities, even though such transmission service is not actually rendered.

This is yet another means by which BPA seeks to maximize its revenues at the expense of the other Pacific Northwest utilities and of California. Utilities which must pay BPA 3.5 mills per kilowatt hour plus losses for transmission service not actually rendered cannot price their return energy competitively with BPA's--on which no transmission charge or losses are affixed. Nor will California utilities have the economic incentive to enter into diversity and seasonal exchanges--the highest and best uses of the Intertie--when the lowest-priced "return energy" available in the Pacific Northwest is BPA's.

As discussed at a meeting among the operators on July 25, 1984, BPA intends to prevent price discounting based on the principle that "allocation will be adjusted based on use." If selling at a price below 18.5 mills/kWh results in one party obtaining higher use, then that party's allocation will be reduced the following day. Adjusting allocations based on use is not proper and should be omitted from any Intertie Access Policy.

IV.

CONCLUSION

Edison is not without some understanding and empathy for the economic problems now facing BPA and the Pacific Northwest as a whole. California and the Pacific Northwest need each other to most effectively serve customers in both regions.

The Intertie has served long and well for both the Pacific Northwest and California. Arrangements between Pacific Northwest and California entities have benefited both regions, and fulfilled the purposes for which the Intertie was constructed.

The proposed near-term Intertie Access Policy should not be implemented without an adequate consideration and review of the many complex operating, legal and environmental issues that are presented by the proposed policy. We again urge BPA to hold formal hearings on this matter to gather and carefully consider all the facts and implications of any Intertie Access Policy before reaching a decision and implementing even a near-term policy.

If after carefully considering all the comments received on this proposed policy BPA proceeds to implement a near-term Intertie Access Policy then Edison recommends the following changes in the proposed policy be made:

- Eliminate the "economic override" criteria and allow free market forces to allocate access to the Intertie to non-Federal entities.
- Permit firm access to the Intertie for capacity and energy exchanges, both existing and future, for the

mutual benefit of both regions.

- Remove the uncertainty for the treatment of new long term contracts between Pacific Northwest and California entities so that utility planners in both regions can fulfill their responsibilities without waiting two years for a long-term Intertie Access Policy.
- Clarify application of the condition for Intertie access that states "power [must be] from existing Pacific Northwest resources that would not create a substantial interference with the Administrator's marketing program."
- Provide firm transmission service for transactions under all existing contracts that provide for obligatory deliveries including Edison's capacity exchange contract with the Portland General Electric Company.
- Permit required energy deliveries to BPA to be made at points other than where the Intertie crosses the southern border of Oregon.
- Delete the procedure that would reduce a Pacific Northwest seller's allocation of Intertie capacity if on the previous day such seller lowered its price in order to be competitive in the marketplace.
- Allow Canadian entities to compete with other non-Federal entities under all conditions.

- Eliminate restrictions on language that could disqualify a future contractual arrangement from gaining access to the Intertie.

Finally, it is Edison's hope that based on these Comments BPA will not implement the proposed new policy for allocating the Intertie capacity controlled by BPA but will allow free market forces to prevail. However, if an access policy is to be adopted by BPA, due process must be provided to those parties affected by such action.

Southern California Edison Company

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November 29, 1984

Mr. Anthony R. Morrell
Environmental Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Dear Mr. Morrell:

Subject: Proposed Long-Term Intertie Access Policy
Notice of Intent to Prepare An
Environmental Impact Statement (EIS)

In response to BPA's Notice of Intent to Prepare an Environmental Impact Statement (October 10, 1984), the Southern California Edison Company (Edison) is submitting the following comments. In addition to our comments dealing with the proposed EIS, we are also submitting some general comments relating to the issues or concerns associated with the formulation of BPA's proposed Long-Term Intertie Access Policy (LTIAP).

EIS COMMENTS

It is our understanding that the stated purpose for the development and proposed implementation of the LTIAP, as will be represented in the EIS, includes the following items:

1. Insure that BPA makes timely repayments to the U.S. Treasury;

2. Facilitate long-term transactions between the Northwest and California;

3. Facilitate economy energy transactions between the Northwest and California; and

4. Protect BPA's efforts on behalf of fish and wildlife.

To accomplish these goals, BPA is proposing a new intertie capacity allocation procedure in conjunction with a new marketing or rate implementation procedure. Together, these two actions are likely to influence or change the resource mix and operation of existing power plants (hydro and thermal) in the Pacific Northwest (PNW), the Pacific Southwest (PSW), and Canada.

With the above purpose statements serving as background and prior to making comments on the proposed EIS, it is necessary to note that the implementing regulations for the National Environmental Policy Act (40 CFR, Parts 1500-1508) provide the regulatory framework within which an EIS must be written. Specifically, the statutory requirements, as contained within Part 1502.3, require the preparation of an EIS when major Federal actions may significantly affect the quality of the human environment. Part 1508.14 of the regulations defines the human environment very broadly, including both the natural and physical environment and the relationship of the people within that environment. Therefore, in order to satisfy the definition of human environment, the scope of BPA's EIS must be broad enough to consider all the implications of the implementation of the Long-Term Intertie Access Policy in all the regions which may be affected. At a minimum and inasmuch as BPA's actions are likely to change the generation mix in these regions impacted by BPA's LTIAP, the scope of the EIS must be broadened as provided in 40 CFR Part 1508.8 to include the impacts which will be realized in the PNW, the PSW, and Canada.

In general, the scope must allow for a thorough analysis of the market implications, the environmental impacts, and the change in resource utilization which would result from the implementation of the proposed Long-Term Intertie Access Policy. More specifically, the issues and impacts which should be addressed include, but are not limited to, the following items:

1. A description and analysis of how the resource mix in the PNW and PSW will change as a result of the implementation of the proposed policy, and the environmental consequences to biological resources, air and water, land use, cultural resources, socioeconomics, etc., resulting from changes in type and mode of operation of existing generation sources.

2. An analysis of alternative sources of capacity and energy and markets for surplus capacity and energy sales in both the PNW and PSW.

3. An analysis of the potential development of new generation or transmission projects in both the PNW and the PSW which may become economically attractive or viable as a result of

the increased revenues/rates which BPA is proposing to collect from the PSW as a result of its Long-Term Intertie Access Policy.

4. An analysis of the long-term effects on planned projects, such as the third AC PNW-PSW intertie line, in both the PNW and PSW, due to the proposed changes including rates, which may result in alteration of the sources for future power purchases, especially in the PSW.

5. An analysis of the impacts associated with changes in the operation of existing hydro facilities or with the addition of new hydro facilities within the Columbia River System, including impacts to hydrologic and biological resources as a result of the proposed LTIAP implementation.

LONG-TERM INTERTIE ACCESS POLICY ISSUES

In addition to the above-mentioned EIS comments, and by way of comments concerning the formulation of the Long-Term Intertie Access Policy, Edison would like to reiterate that, if such a policy is formulated, it should:

1. Provide for the most efficient utilization of this nation's resources by encouraging the maximum economic use of alternative and renewable energy and the cost effective conservation of our nation's non-renewable (fossil fuel) energy.

2. Provide for and protect the aspects of a free market by developing an access policy that allows both regional and extraregional entities reasonable access to the interties.

3. Avoid an allocation procedure which would "procedurally" establish new electricity rates or affect established rates in a manner such that one region's ratepayers subsidize the rates of another region.

4. During development, and prior to its implementation, be submitted to a formal hearing and decision-making process as is outlined in Section 6(c)(1) of the 1980 Regional Act and, to the extent the policy affects the availability and rates for wholesale power and transmission service, be submitted to a formal hearing and decision-making process as outlined by Section 7(i) of the 1980 Regional Act.

The above issues, as well as others, were presented in previous responses to BPA's solicitation of comments in conjunction with the formulation of the Near-Term Intertie Access Policy. It is Edison's opinion that many of the issues which Edison presented

in these previous responses were not addressed or resolved adequately. For this reason, and in response to BPA's request for additional comments, Edison incorporates, by reference, our previous comments.

We request that BPA carefully consider the issues set forth herein and in Edison's previous submittals incorporated by reference herein.

Sincerely,



Robert W. Kendall, Manager
Power Contracts

Attachments

cc: M. Jones - CEC
W. Cavangaro - CPUC

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AIF Apdx

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March 14, 1985

Donna L. Geiger
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Portland, OR 97212

Dear Ms. Geiger:

Subject: BPA Near Term Intertie
Access Policy - Reference ALP

In response to the Bonneville Power Administration's ("BPA") Opportunity to Comment, the Southern California Edison Company ("Edison") has reviewed BPA's Revised Near Term Intertie Access Policy ("Revised Policy"), dated January 31, 1985. Edison has consistently expressed to BPA, in Edison's September 16, 1983, March 16, 1984, and August 13, 1984, Comments (which are incorporated by reference herein), Edison's serious concern regarding the adverse effects that BPA's proposed Intertie Access Policy will have on the Pacific Northwest ("PNW") energy market and BPA's California customers. Edison notes that the Revised Policy, in most respects, is essentially the same as the draft interim policy on which Edison commented in August 1984. Those comments will not be repeated herein; however, Edison believes that they continue to apply and should be adopted by BPA.

BPA's own statement that "... the IAP has not totally eliminated Northwest market competition ...", acknowledges that the Intertie Access Policy has indeed reduced competition. BPA has effectively eliminated price competition for sales to California during supply conditions which previously were marked by vigorous price competition among Northwest sellers. The Interim and Revised Policies essentially eliminate competitive pricing because allocating Intertie capacity according to the quantity of energy available for export to California declared by each seller is a classic cartel device, insuring that a seller will have little or no incentive to modify price to increase or secure sales to California. This procedure has resulted in an

artificial increase in energy prices, far beyond appropriate cost-based prices. BPA has protected these price increases for itself and PNW utilities by excluding Canadian utilities which previously had direct access to the Intertie. Prior to the Intertie Access Policy, the presence of these Canadian suppliers played an important role in maintaining an efficient and competitive PNW marketplace.

In the Revised Policy, BPA has resurrected its "economic override" provision. According to BPA, the economic override mechanism will protect the Pacific Southwest ("PSW") from excessively high sales offers from the PNW. We disagree. The economic override is nothing more than a mechanism to provide additional price protection for nonfirm energy sold by PNW utilities. BPA would require the purchasing utility to prove that a PNW sales price for economy energy is higher than the highest-cost thermal resource or the highest-cost firm contract energy of "any" California utility. This would furnish pricing information to PNW utilities permitting them to price their surplus energy at rates which are only slightly below the highest-cost resource of not only the requesting purchaser, but of all the California utilities. The economic override acts to effectively stablize and protect the economy energy prices of the PNW against all but the highest-cost PSW alternatives. Edison objected to this provision when first proposed by BPA and objects to the inclusion of this mechanism in the Revised Policy.

To justify the implementation of the Revised Policy, BPA has attempted to show that (i) PNW utilities have benefited, (ii) the policy can be implemented with only "minor difficulty", and (iii) competition has not been eliminated during the first six months under the Interim Policy. Edison, however, disputes both the facts and the conclusions used by BPA to make the above showing. Edison believes that the first six months of operation under the Interim Policy actually confirm the adverse impacts and inefficient utilization of the Intertie which Edison predicted in its earlier comments. For example, BPA has indicated that the Interim Policy has had little or no impact on Intertie loadings. Yet, as recently as the week of March 4, 1985, Edison's utilization of its portion of the Intertie was reduced from an almost 100% utilization factor to a low of 52% on Wednesday, March 6, and a weekly value of 78% utilization. This reduction was made because PNW prices were not competitive with Edison's alternative sources of economy energy, which were located outside the PNW.

Moreover, Edison believes that BPA's analysis is incomplete. For example, BPA asserts that "... a rough comparison indicates surplus firm sales this year of more than six times those in a comparable period last year." In making

this statement, BPA has not considered the other major factors that impact BPA's firm sales to California. For example, 1983 was an abundant hydro year in California. Consequently, California was able to satisfy significantly more of its energy needs with lower-cost "in-state" resources than was possible in 1984. These short term purchases of excess California hydro energy reduced the level of purchases made over the AC Intertie lines from the PNW. BPA should have provided a more objective and comprehensive review comparing the performance under the Interim Policy with the performance of either a series of years or a year with similar hydrological conditions. To assist BPA's review, Edison will, in the near future, provide BPA with specific information comparing 1983 and 1984 purchase activity.

It must be stressed that Edison continues to object to the haste in which, and the procedures by which, BPA has implemented the Intertie Access Policy. BPA has used its control over Intertie transmission access to alter an established course of commerce for the purpose of raising prices unilaterally to benefit BPA and PNW suppliers. The methodology employed by BPA is inappropriate and violates principles of due process. BPA has again failed to provide a public hearing procedure pursuant to Sections 6(c)(1) and 7(i) of the Regional Act, and has totally disregarded NEPA regulations requiring the development of an Environmental Assessment and an Environmental Impact Statement prior to—not in conjunction with or as justification for—implementation of the Intertie Access Policy. NEPA mandates that environmental review be conducted at an early stage so that "environmental amenities and values may be given appropriate consideration in decisionmaking . . ." [42 U.S.C. § 4332(2)(B)] and at a stage where the decisionmaker retains a maximum range of options.

Edison once again encourages BPA to comply with the public hearing requirements of the Regional Act. Such hearings, particularly in light of BPA's questionable statements concerning the past six months operating experience, are necessary to provide the objective and comprehensive data necessary to decide if the Interim Policy should be continued, modified, or terminated. Edison again urges BPA to comply with the requirements of NEPA prior to implementing any Intertie Access Policy.

In conclusion, Edison urges BPA to avoid implementing policies which provide anti-competitive protection for the PNW at the expense of future long term benefits to both regions. BPA should be aware that its Intertie Access Policy has caused California regulatory agencies to express concern over the cost-effectiveness of increasing transfer capability between California and the Pacific Northwest. Edison further encourages

BPA to comply with its governing regulations in developing and implementing its policies. Until such time as BPA has (i) held the necessary public hearings, (ii) proven publicly that such a policy is needed, and (iii) complied with NEPA regulations, Edison strongly recommends that the Intertie Access Policy be suspended. BPA, as an instrumentality of the federal government, has an obligation to all of its customers, including those in California.

Sincerely,



Robert W. Kendall
Manager, Power Contracts

RWK:el

cc: Joseph E. Bodovitz - CPUC
Melissa Jones - CEC

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April 3, 1986

Public Involvement Manager
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Subject: BPA's Discussion Paper of Major Issues in the Development of the Draft Long Term Intertie Access Policy (LTIAP)

In response to BPA's request for comments on the subject discussion paper and to assist BPA in its preparation of the LTIAP, the Southern California Edison Company ("Edison") submits the following comments. Edison is responding not only to the subject discussion paper, but also to the three discussion sessions which BPA held on Assured Delivery (December 3, 1985), Non-Federal Rights to the Intertie (January 14, 1986), and Intertie Access for Extraregional Resources (January 28, 1986).

Initially, Edison reiterates, and incorporates by reference, Edison's previous comments on BPA's Intertie Access Policy. In summary, Edison stated in those comments that BPA must, in formulating an intertie access policy:

1. provide for the most efficient utilization of this nation's resources by encouraging the maximum economic use of alternative and renewable energy and the cost effective conservation of our nation's non-renewable (fossil fuel) energy;

2. provide for and protect the aspects of a competitive market by developing an access policy that allows both regional and extra-regional entities reasonable access to the interties;

3. avoid an allocation procedure which would "procedurally" establish new electricity rates or affect established rates in a manner such that one region's ratepayers subsidize the rates of another region;

4. during the development, [illegible] or to its implementation, convene a formal hearing and decision-making process as outlined in Section 6(c)(1) of the 1980 Regional Act and, to the extent the policy affects the availability and rates for wholesale power and transmission service, submit to a formal hearing and decision-making process as outlined by Section 7(i) of the 1980 Regional Act.

Edison also has significant concerns regarding the issue of "Assured Delivery" as defined in BPA's discussion paper. Edison urges BPA to recognize that Pacific Northwest ("PNW") sellers must be able to obtain long term firm transmission service over the intertie to guarantee deliveries to a California buyer. Without such guarantee, a PNW Seller's firm resource will have appreciably less value to a potential buyer. More specifically, Edison is concerned about the aspects of Assured Delivery described below:

1. Assured Delivery Allocation Criteria: The LTIAP has been described as the vehicle by which most PNW utilities receive access to BPA's intertie transmission system for the purpose of selling capacity and energy to a California buyer ("Buyer"). Therefore, the LTIAP should delineate the criteria which BPA will utilize to grant Assured Delivery for long term firm sales. These criteria should be described in enough detail to allow for the bilateral negotiation between a PNW seller and a Buyer without the two parties having to make the sale contingent upon an additional negotiation between the PNW seller and BPA. Unless this is the case, BPA can utilize this additional negotiation requirement to its own advantage, thereby placing the PNW seller at a competitive disadvantage, and may render the sale unattractive to one or both parties.

2. Assured Delivery Allocation Duration: The LTIAP must specifically identify the conditions, if any, under which BPA can rescind or amend an Assured Delivery allocation. Edison, as well as other Buyers, is seeking long term contracts which have long term capacity planning benefits. The extent to which the allocation can be modified by BPA will directly reduce the price which a Buyer would be willing to pay. Specifically, Edison recommends that the term of the Assured Delivery allocation be the same as the term of the sale agreement between the PNW seller and the Buyer. The only time that a review or modification of the allocation should be considered would be if the provisions of the sale agreement are materially amended or changed.

3. Assured Delivery Callback Requirements: In its discussion paper, BPA suggests that in order to reduce some of its risks BPA is considering the inclusion of callback provisions similar to those in PL 88-552. Again, the price a Buyer is willing to pay a PNW seller is directly affected by the quality of the capacity and energy which is being purchased and by the Buyer's ability to obtain long term planning benefits. These benefits would be jeopardized by any transmission callback requirement which could interrupt the sale of capacity and energy.

In conclusion, Edison stresses that to the extent that assurances are not given concerning the reasonable granting of and administration of Assured Delivery, the basis for justifying long term interregional sales arrangements may be reduced. This in turn may jeopardize the current plans to increase the transfer capability between California and the PNW.

Sincerely,

Robert Kendall

Robert W. Kendall

cc: David Morse, California Public Utilities Commission
Melissa Jones, California Energy Commission

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January 16, 1987

Ms. Donna L. Geiger
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Dear Ms. Geiger:

Subject: Bonneville Power Administration
Intertie Development and Use Draft
Environmental Impact Statement and
Proposed Long Term Intertie Access Policy
Reference SJ-L2

On October 24, 1986, Bonneville Power Administration ("BPA") issued its Intertie Development and Use ("IDU") Draft Environmental Impact Statement ("EIS") and Proposed Long Term Intertie Access Policy ("LTIAP"). BPA initially established January 2, 1987 as the deadline for receiving comments, and subsequently extended the comment period until January 16, 1987. The Southern California Edison Company's ("Edison") comments on the subject IDU EIS and LTIAP are attached.

Edison regrets that BPA, through the LTIAP, has chosen to continue to pursue its anticompetitive and discriminatory policies regarding Intertie access. Since 1983, Edison has been providing comments urging BPA to develop an access policy that relies upon the marketplace rather than upon BPA's discretion and administrative procedures to allocate Intertie access. We have previously submitted comments to BPA on September 16, 1983; August 13, 1984; November 29, 1984; March 14, 1985; and April 3, 1986 regarding the various proposed Near Term and Long Term Access Policies. All these comments appear to have been ignored as BPA has continued to pursue an increasingly restrictive Intertie access policy.

While Edison continues to be strongly opposed to the direction BPA has chosen to take with its LTIAP, our comments are limited for two reasons. First, our past experiences indicate that comments from nonregional customers are unlikely to receive serious consideration for incorporation into BPA's final policy. Second, since nothing less than a major overhaul of the precepts central to the access policy would render that policy acceptable, presenting detailed recommendations on the proposed LTIAP at this time would not be productive. However, we do intend to continue to press our position in other forums.

The present situation is unfortunate for all parties because only an open, competitive Intertie Access Policy would provide long-term benefits to both regions and would be consistent with federal policies to promote competition. We encourage BPA to seriously rethink its proposal in order to promote a positive and mutually beneficial relationship between BPA and California.

Sincerely,

Robert W. Kendall

Attachments

cc: Stanley W. Hulett, President
California Public Utilities Commission

Charles Imbrecht, Chairman
California Energy Commission

COMMENTS OF THE SOUTHERN CALIFORNIA EDISON COMPANY

REGARDING THE

BPA INTERTIE DEVELOPMENT AND USE

DRAFT ENVIRONMENTAL IMPACT STATEMENT

AND

PROPOSED LONG TERM INTERTIE ACCESS POLICY

January 16, 1987

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I.

INTRODUCTION

The Bonneville Power Administration's ("BPA") Proposed Long Term Intertie Access Policy ("LTIAP") is, for the most part, a continuation of the access policy adopted by BPA as the Near Term Intertie Access Policy ("NTIAP") and an expansion of the allocation scheme in the NTIAP to include allocating assured access for long term firm power sales. As a result, the LTIAP retains all of the anticompetitive and discriminatory features of the NTIAP and is, in some respects, even more anticompetitive than the NTIAP. Because of the similarities between the two policies, Edison's previous comments on the NTIAP apply to the LTIAP as well. Therefore, the following comments are incorporated herein by reference:

1. "Comments of Southern California Edison Company on the BPA Intertie Access Policy", September 16, 1983.

2. Letter to Peter T. Johnson from Edward A. Myers, Jr. regarding the "Proposed Near-Term Intertie Access Policy", August 13, 1984.

3. Letter to Anthony R. Morrell from Robert W. Kendall regarding "Proposed Long-Term Intertie Access Policy, Notice of Intent to Prepare an Environmental Impact Statement (EIS)", November 29, 1984.

4. Letter to Donna L. Geiger from Robert W. Kendall regarding "BPA Near Term Intertie Access Policy - Reference ALP", March 14, 1985.

5. Letter to BPA Public Involvement Manager from Robert W. Kendall regarding "BPA's Discussion Paper of Major Issues in the Development of the Draft Long Term Intertie Access Policy (LTIAP)", April 3, 1986.

Edison continues to object to a BPA intertie access policy which is intended to raise the price of power over competitive market levels to the detriment of California consumers in order to reduce the electric rates for Pacific Northwest ("PNW") customers who already pay some of the lowest rates in the country.

Also, Edison recommends that BPA address certain additional issues in the draft Environmental Impact Statement ("EIS").

II.

DISCUSSION

A. BPA's Proposed Intertie Access Policy is Inconsistent with Statutes Including Those Providing Open Access to All Non-Federal Utilities.

The statutes governing BPA do not provide authority for the establishment of an Intertie access policy that severely restricts competition and unduly discriminates against BPA's nonregional customers . Edison believes that such an unfair and discriminatory policy directly violates BPA's requirements under Section 6 of the 1964 Regional Preference Act which requires that BPA function as a "carrier" between regions, and under Section 6 of the 1974 Pacific Northwest Federal Transmission System Act which requires that the Administrator make excess capacity on the federal transmission system available to all utilities on a "fair and nondiscriminatory basis".

The proposed LTIAP would control access to the Pacific Intertie in such a way as to severely restrict competition among utilities in the Pacific Northwest and Canada for the sale of electrical power to California. This would be accomplished by allowing BPA to withhold large portions of the Intertie to transmit its surplus firm power regardless of whether it actually markets such power, by continuing to allocate fixed Intertie allocations to Pacific Northwest utilities, and by excluding Canadian utilities from access during large portions of the year. We believe that BPA is required to conform its policies to federal antitrust law to the maximum extent feasible, and that BPA's exercise of control over access to the Intertie in order to eliminate competition is directly contrary to the intent of the public policy embodied in the federal antitrust laws.

The draft EIS examines the impacts of the LTIAP in the context of seven "Decision Packages". However, none of the scenarios examined by BPA evaluated the impact of an open Intertie access policy governed entirely by competition. Even the least anticompetitive scenarios, Decision Package Nos. 1 and 6, assume that under certain circumstances access would continue to be allocated under a formula similar to that in the Exportable Agreement.

BPA's failure to evaluate more competitive Intertie access policies, particularly pro-competitive policies, renders the Draft EIS insufficient to evaluate the impact of the proposed LTIAP. Without such an analysis of alternatives to the proposed policy, BPA cannot fully evaluate the impact of the proposed LTIAP as required by statute. BPA should, therefore,

expand the scope of the Draft EIS to measure the impact of pro-competitive Intertie access policy alternatives.

BPA should comply with statutory ratemaking procedures in developing a Long Term Intertie Access Policy. The Proposed LTIAP clearly alters the availability of transmission and the conditions of service under BPA's transmission rate schedules. Moreover, the purpose of the LTIAP is to increase BPA's revenues from sales of surplus energy and capacity to nonregional customers. Accordingly, BPA's action in promulgating the LTIAP is subject to the requirements of Section 6 of the Northwest Power Act which mandates that BPA publish notice in the Federal Register, conduct evidentiary hearings and allow cross-examination, and obtain confirmation and approval of its decision by the Federal Energy Regulatory Commission (FERC).

B. BPA Should Allow the Market to Control Access By Other Pacific Northwest Utilities and Canadian Utilities.

The proposed LTIAP would not only increase BPA's rates for surplus energy sold to California above competitive market levels, the rates charged by all PNW utilities to California would also be increased above such levels. There is no basis for BPA to provide such an unjustified and anticompetitive windfall to PNW utilities. BPA should not allocate transmission capacity which is excess to its actual use of the Intertie on a pro rata basis with no recognition of whether utilities receiving such allocations are able to, or in fact do, consummate sales and thereby utilize the capacity. Transmission capacity excess to BPA's actual use should be made available only to utilities showing that a transaction with California has been negotiated. This would ensure a more economically efficient market in the PNW for sales to California, result in greater utilization of the Intertie, and reduce the waste of resources caused by the unnecessary spill of water past unloaded turbines.

The statutes governing access to the intertie (Section 6 of the 1964 Regional Preference Act and Section 6 of the 1974 Pacific Northwest Federal Transmission Act) provide that BPA shall not discriminate against Canadian utilities. Excluding Canadian utilities from the Intertie during Conditions 1 and 2 and allowing Canadian utilities limited access under Condition 3 (as described in Section H, Page 11 of the Proposed LTIAP) would result in the arbitrage of Canadian energy at higher prices through sales by PNW utilities to California and would thereby raise prices above competitive market levels, as has happened under the Near Term Intertie Access Policy. This reduces economic efficiency, provides PNW utilities with excessive revenues from sales to California, and reduces Intertie utilization. BPA should allow Canadian utilities to

obtain access to the capacity of the Intertie which is excess to BPA's actual use on the same terms offered to PNW utilities (preferably on the basis described above).

BPA's exercise of control over access to the Intertie under the proposed LTIAP is particularly inappropriate in light of BPA's proposal in its 1987 general rate case to adopt market-based rates for certain transmission services over the Intertie. By using the lost opportunity rate in the proposed IS-85 rate schedule, BPA will be able to assure that other PNW or Canadian utility transactions with California utilities which BPA cannot prevent outright by the restrictive access terms of the proposed LTIAP will be rendered uneconomic via excess transmission rates.

C. BPA's Proposed Intertie Access Policy Unduly Restricts the Types of Transactions That Can Be Made Over the Intertie.

A major benefit of the Intertie--seasonal and diversity exchanges--would be severely limited, if not outright precluded, by the Proposed LTIAP (see Section E4, Page 7 of the Proposed LTIAP). It is inappropriate for BPA to dictate that, while it may itself contract at any time with California utilities for seasonal and diversity exchanges, other PNW utilities cannot enter into seasonal or diversity exchanges until BPA declares that it no longer has a surplus or unless BPA determines that it would benefit by such an exchange. This restriction is particularly inappropriate because BPA's own EIS shows that seasonal and diversity exchanges are environmentally and economically beneficial to both regions.

The Proposed LTIAP would also severely limit the ability of other PNW utilities to complete any firm contracts with California utilities. To the extent that such contracts could be completed, BPA would, inappropriately, be a third party in such negotiations given BPA's retention of a veto power for transactions that interfere with its power marketing programs (see Section C3, Page 4, of the Proposed LTIAP) and BPA's intention to evaluate each contract based on a broad set of criteria (see Section E2b(2), Page 6, of the Proposed LTIAP). It is improper for BPA to limit the types of transactions which can occur on the Intertie capacity it determines to be excess to its needs. As long as this excess capacity is utilized, and BPA is appropriately compensated through wheeling revenues, BPA should not make a judgment as to the desirability of one type of transaction vis-a-vis another.

In addition, because of the Administrator's ability to restrict delivery based on environmental considerations (see Section C3c(3), Page 4, of the proposed LTIAP) even firm contracts granted assured delivery by BPA might be subject to

future transmission disruptions at BPA's discretion. Such restrictions on assured delivery for firm contracts would increase BPA's control of the PNW market, unfairly increase prices to California, and could force California utilities to develop additional resources before they would otherwise be needed (to the detriment of future sales by BPA and the PNW).

The Proposed LTIAP would require that PNW utilities completely utilize all of their own transmission to California utilities before such PNW utilities would be granted access on the rest of the Intertie, even if such PNW utilities' transmission facilities cannot reach some potential customers in the Pacific Southwest which have rights on the Intertie south of the California-Oregon or the California-Nevada border (see Section C6, Page 3, of the Proposed LTIAP). This restriction would further limit the ability of PNW utilities to compete with BPA for sales to California and would discriminate against potential buyers of transmission service.

D. BPA's Definition Of Its Intertie Access Needs Is Ambiguous and Overly Broad.

Edison has a strong concern relating to the manner in which BPA would determine the amount of Intertie capacity to reserve for its own "power marketing program". In the Interim Near Term Intertie Access Policy, and under the current Revised Near Term Policy, BPA does not provide assured access to its own "surplus firm" energy. This energy instead is allocated pro rata on the same basis as nonfirm energy. In fact, BPA has marketed most of its surplus firm energy on an hourly basis which is actually a nonfirm service. BPA, under the Proposed LTIAP (see Section F1, Page 9), would reserve a portion of the Intertie sufficient to market its surplus firm energy before other utilities receive an allocation of the Intertie for their nonfirm energy (see Section D1 of the Proposed LTIAP). This has the effect of increasing BPA's share of the Intertie for economy energy transactions.

Under the language in the Proposed LTIAP, BPA would be able to reserve this space regardless of whether BPA is actually able to make surplus firm transactions. It is inappropriate for BPA to reserve a portion of the Intertie in the hope or expectation that it will be able to make surplus firm sales.

This is a significant problem because BPA is projecting that in the next few years it will have over 1,000 average MW of surplus firm energy. Under the Proposed LTIAP, BPA would be able to "shape" this energy into the fall months using a factor of 1.8 times the projected amount of firm surplus. This means, for example, that under the proposed LTIAP, in October, BPA could "reserve" as much as 1,800 MW of the Intertie for surplus

firm sales. In this situation, nearly one-half of BPA's portion of the Intertie would be unavailable for nonfirm energy sales (at lower rates) from other PNW utilities or Canadian utilities. Also, by first reserving space for what is labeled as surplus firm energy (often sold on an hourly basis), BPA could substitute higher-priced surplus firm energy whether or not the buyer wanted or needed firm energy.

E. The Draft Environmental Impact Statement Should Address Certain Additional Issues.

As required under 42 U.S.C.A., Section 4332 (cn) (ii), a statement should be added to the draft EIS identifying any unavoidable adverse impacts which would result from the Maximum Upgrade in transmission capacity. If no such unavoidable adverse impacts are anticipated, this should be so stated.

The IDU EIS needs to explain the relationship between local short-term uses of man's environment and maintenance and enhancement of long-term productivity as required by 42 U.S.C.A., Section 4332 (cn) (iv). The IDU EIS should contain a discussion of the uses of renewable resources, such as hydroelectric generating facilities versus non-renewable resources, such as oil, gas, and coal-fired generation.

Finally, a statement should be added to the EIS to identify any irreversible and irretrievable commitments of resources which would be involved in the Maximum Upgrade. 42 U.S.C.A., Section 4332 (cn) (v) requires an EIS to note such commitments. If no resources would be irreversibly and irretrievably committed by completion of the Maximum Upgrade, it should be so noted.

Additional language changes which we believe should be made in the EIS, are listed in the attached appendix.

III.

CONCLUSION

Edison believes that the LTIAP, as proposed, would further promote BPA's already anticompetitive and discriminatory access policy for the Pacific Intertie. Edison continues to believe that BPA's proposed procedure for allocating intertie access is fundamentally flawed in that the policy allows BPA to substitute its judgment for the actions of the marketplace. A major overhaul of the precepts central to the access policy is necessary and appropriate in order to bring BPA's LTIAP in line with federal policies which promote competition and prohibit antitrust behavior.

APPENDIX

RECOMMENDED CHANGES TO THE IDU EIS

A. Purpose of Need for Action

1. Page 1-7, paragraph 3, 5th line should be " . . . COTP EIS/EIR, . . ." Sixth line should be a comma (,) after IDU EIS. Last line after "benefits", should read "benefits to COTP participants . . ." Add the last sentence: "PSW, as discussed in the COTP EIS/EIR".

B. Alternatives, Including Proposed Actions

1. Page 2-2, under 2.1.3, second paragraph, change the figures as follows: " . . . involve construction of about 130 miles of new 500 kV . . ." and "upgrading of about 170 miles of existing . . ."

2. Page 2-3, sixth paragraph, third line, should be " . . . IDU EIS and COTP EIS/EIR . . ." and at the end of line four, add "and the Transmission Agency of Northern California (TANC)".

C. Environmental Consequences

1. Page 4.4-2, seventh paragraph, first line, should be changed to read, " . . . in northern, central and southern California . . ." Also, the two sentences beginning with "Nonetheless" and ending with "from the Third AC/COTP" should be changed to read as follows: "Nonetheless, some of the COTP participants are southern California utilities; consequently, the construction of COTP would result in more PNW electrical sources being sold to southern California."

2. Page 4.4-20, first paragraph, should be changed as follows: ". . . central California, and would indirectly serve southern California. Some of the PNW power brought in over COTP would displace . . . Los Angeles area. Some of the PNW power brought in over COTP would displace power produced at plants in the Los Angeles area. Nonetheless, fewer people would . . . Expansion project." Delete "However . . . would result from the Third AC/COTP." Leave the last sentence as is.

3. Page 4.8-3, last paragraph, change to " . . . utilities, the Third AC/COTP would increase the number of interregional transactions the PNW could engage in." Delete the rest of the paragraph.

APPENDIX B

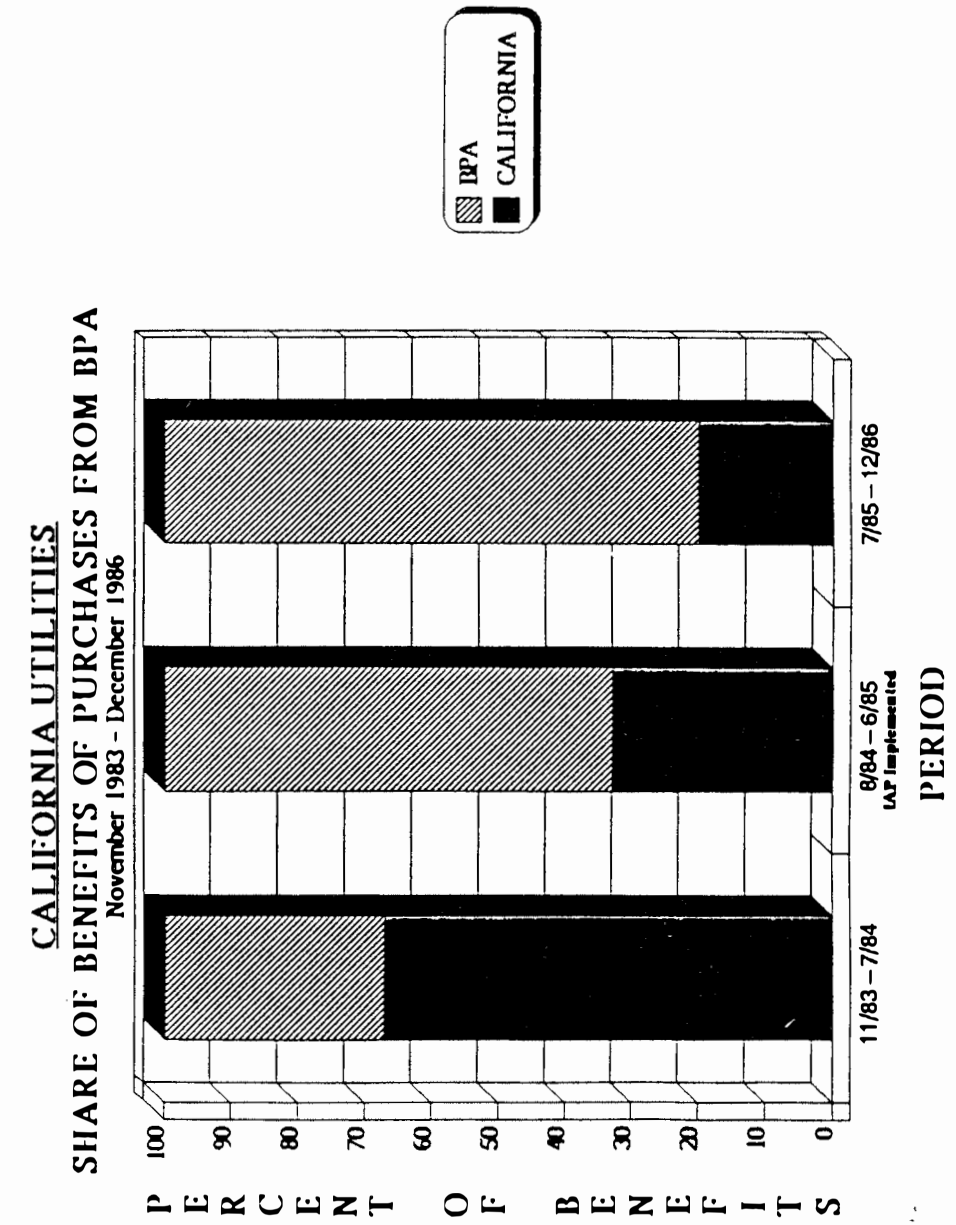
TO

COMMENTS OF

SOUTHERN CALIFORNIA EDISON COMPANY

ON BPA'S REVISED DRAFT

LONG-TERM INTERTIE ACCESS POLICY



Pacific Gas and Electric Company

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RECEIVED DATE:
FEB 19 1988
AREA: DISTRICT
D-3

February 18, 1988

Ms. Jo Ann Scott
Public Involvement Manager
Bonneville Power Administration
Post Office Box 12999
Portland, Oregon 97212-0999

Re: Revised Draft Long-Term Intertie Access Policy

Dear Ms. Scott:

In response to the notice of December 15, 1987, Pacific Gas and Electric Company ("PG&E") submits the following comments on Bonneville Power Administration's ("BPA") revised draft Long-Term Intertie Access Policy ("LTIAP") issued on the same date. The scope of the comments on BPA's revised draft policy preclude additional comment on the initial comments of various interested parties which were submitted on our about February 5, 1988. You should not take PG&E's lack of cross-comments as either agreement or disagreement with the comments previously submitted by others. The effort required for the preparation of comments on the LTIAP itself since the receipt of a copy of the initial comments on February 11, 1988 left no time for meaningful review of those comments prior to the date of this letter.

The LTIAP contains several changes from the October 1986 proposed LTIAP, but either they offer little or no improvement to the problems PG&E identified in its comments of January 14, 1987 on that proposed policy, or they make the Intertie access policy look worse from PG&E's perspective than the prior proposal. The comments below address the following topics: (a) BPA's failure to design the LTIAP to carry out congressional intent concerning the Pacific Northwest-Pacific Southwest Intertie ("Intertie"); (b) BPA's failure to conform the LTIAP to applicable statutes; (c) the failure to propose an LTIAP more faithful to federal antitrust policy which is also consistent with BPA's revenue objectives; (d) the lack of support in the record on the LTIAP for many aspects of this policy; (e) other problems with various features of the LTIAP; and

(f) a preferred alternative Intertie access policy. A table of contents is appended for your convenience.

Before preceding to the substance of the comments, there are three preliminary matters. First, while BPA provided on January 5 and 6, 1988, some documentation of the two studies it performed in developing the LTIAP, BPA provided some documentation of two other studies concerning the LTIAP (those of February 11, 1988) only two days before these comments were due. BPA has never provided the "variety of economic studies underway as part of the IDU EIS process" it promised. (Transcript of BPA Public Meeting on Draft Long-Term Intertie Access Policy, January 6,7,12,20, and 27, 1988 (hereinafter "TR"), p. 255.) BPA's IAP Program Manager told interested parties at that meeting that these latter studies were planned to be released between January 16 and January 31, 1988. (TR, Cameron, p. 256.) To date, PG&E has received neither a copy of these studies nor any notice that they have been released. Given the unavailability of these studies above which could be relevant to the final LTIAP, BPA should not rely on them in determining the content of the final LTIAP, to avoid the appearance that its policy cannot withstand scrutiny.

Second, because the LTIAP suffers from many of the problems PG&E previously identified during the development of the Interim Near-Term Intertie Access Policy ("Interim IAP") issued on September 7, 1984, the Near-Term Intertie Access Policy ("NTIAP") issued in May 1985 and the proposed LTIAP issued in October 1986, PG&E specifically incorporates by reference its letters to BPA concerning the Intertie Access Policy of January 14, 1987, April 3, 1986, January 31, 1986, May 31, 1985, April 12, 1985, March 15, 1985, August 10, 1984, March 16, 1984 and September 16, 1983, except to the extent that comments in this letter may be inconsistent with those presented in these earlier letters.

Third, PG&E has also enclosed an appendix to these comments, which is an economic study of the LTIAP and alternative policies prepared by Decision Focus Incorporated for PG&E ("DFI Study"). In addition to references to the DFI Study in these comments, the entire document is incorporated by reference in PG&E's comments.

1. Failure to Carry Out Congressional Intent

BPA's most recent statement of congressional intent concerning the purposes of the Intertie is in its Intertie Development and Use Draft Environmental Impact Statement ("IDU DEIS") of October 1986, at pp. 1-2 and 1-5. PG&E

does not dispute that the LTIAP helps BPA achieve the first of the three stated objectives, that of providing an additional market for BPA power to increase BPA revenues and allow BPA to repay the U.S. Treasury in a timely manner, although PG&E notes that there are alternative Intertie access policies which will also achieve this objective, some of them to approximately the same degree. Alternatives are discussed below.

a. Efficiency. The second congressional objective is to make more efficient use of (generating) resources in both the Pacific Northwest and California. This refers to making possible interregional transactions such as diversity exchanges which take advantage of the different peak load seasons of the two regions. It should also be understood to include interregional power transactions which take advantage of the different resource mixes in the two regions, largely hydroelectric in the Pacific Northwest and largely thermal in California, the former energy constrained and the latter capacity constrained. This objective does not appear even to be recognized among the purposes of the LTIAP most recently stated by BPA in the IDU DEIS (p. 1-1). The only purpose listed which seems at all related is to "Provide an opportunity for long-term assured access to enable long-term firm power or firm capacity transactions." If this refers to sales, it appears to exclude both seasonal capacity exchanges and capacity-energy exchanges, the very diversity transactions which best help attain this objective.

Of more concern is the fact that the LTIAP operates to reduce the efficient use of resources, in four ways. First, the Formula Allocation mechanism creates a cartel for energy sold on the spot market between the Pacific Northwest and California. This results in monopoly pricing of this energy, which in turn prevents transactions which would increase the total efficiency of trade in this market. (DFI Study, pp. 3-4, A-15-16, A-24-27).

Second, the LTIAP flatly prohibits valuable transactions by denying long-term firm transmission service for capacity-energy exchanges over BPA's share of the Intertie. All efficiency benefits possible from these transactions are therefore lost. Third, the LTIAP also limits seasonal exchanges to 440 MW, an amount well below the 650 MW PG&E alone has either contracted for or will conclude contracts for in the near future; and this amount does not include possible additional seasonal exchanges between Pacific Northwest and other California utilities. In addition, the LTIAP would impose substantial mitigation costs on seasonal

exchanges which may render some or all of these exchanges uneconomic compared to alternative uses of that capacity by Pacific Northwest or California utilities. As discussed below, the severe constraints on seasonal exchanges are both contrary to BPA's statutory obligations and have not been justified on the record. The result of these features of the LTIAP would be to severely limit the attainment of this congressional objective.

Fourth, as the DFI study notes, BPA itself has stated that its Intertie access restrictions will prevent the realization of additional conservation resources in the Pacific Northwest, which could be accomplished through transactions with California. (DFI Study, p. 8).

b. Equitable distribution of benefits. The third congressional objective is to provide an equitable distribution of benefits for both the Pacific Northwest and California. The DFI Study shows that a major effect of both the Interim IAP and the NTIAP has been to consistently capture the great majority of benefits of spot market energy transactions for the Pacific Northwest. (DFI Study, pp. 4, A-36-40.) This effect will continue indefinitely under the LTIAP because that policy has the same features in its Formula Allocation provisions which produce this result as in the current NTIAP, namely the creation and maintenance of monopoly pricing. Only to the degree California utilities act to reduce their short-run marginal cost of energy will this drastic imbalance of benefits be alleviated, and only to a modest degree. (DFI Study, pp. 7, B-11-13.) The result is that this important congressional objective too will continue to be frustrated by the LTIAP, as it has been by BPA's near-term Intertie policies.

2. Conflict with Statutory Authority

Many of the most important features of the LTIAP ignore BPA's statutory directives aimed at making federal transmission service broadly available to utilities interconnected with BPA's transmission system. The list of features below, and the statutes which with they conflict, is intended to be representative rather than exhaustive. In addition, the LTIAP fails to carry out BPA's statutory and judicial directive to conform to federal antitrust policies when allocating its share of the Intertie, so that competition is not hurt.

a. Mandated transmission service. BPA has previously claimed that there is no congressionally mandated method for providing access to its share of the Intertie, and

consequently the BPA Administrator has the same discretion in allocating use of the Intertie as in the management and disposal of any other federal property. (Interim IAP Record of Decision September 1984, ("ROD"), p. 7.) This assertion ignores the strong directives of at least four different statutory provisions to provide Intertie transmission on a fair and non-discriminatory basis with only a few limitations. These statutes are: Section 6 of the 1964 Regional Preference Act, 16 U.S.C. sec. 837e; Section 6 of the 1974 Federal Columbia River Transmission System Act, 16 U.S.C. sec. 838d; Section 9(d) of the 1980 Pacific Northwest Electric Power Planning and Conservation Act, 16 U.S.C. sec. 839f(d); and Section 9(i)(3) of the Northwest Power Act, 16 U.S.C. sec. 839f(i)(3).

The following provisions of the LTIAP conflict with all of these statutes: the exclusion from Assured Delivery of capacity-energy exchanges and peaking capacity sales; the imposition of severe capacity limits and high mitigation costs on all other long-term firm transactions (firm power sales and seasonal capacity exchanges); and the waiver of Exhibit B limits for Pacific Northwest utilities which agree to buy more BPA power or to relinquish part of their transactions with California to enable BPA to make an additional sale (joint ventures and sales in lieu of exchanges).

16 U.S.C. sec. 837e requires that BPA make available to utilities, as a carrier, all transmission capacity on BPA's share of the Intertie which is not required for the transmission of either federal energy or Canadian Treaty power. Once these priority uses are met, BPA's Intertie is indistinguishable from a common carrier. The legislative history of this section states that in determining capacity available beyond these uses, BPA can include its reasonably foreseeable needs but cannot exclude from available capacity an amount related to energy BPA happens to have available to serve same load as a utility. In other words, BPA has a first right to use federal capacity, but it cannot deny utilities their transactions and grab them itself by denying transmission service, if unused capacity is otherwise available.

Consequently, BPA's reservation in the LTIAP of the full amount of its surplus firm power (LTIAP Section 2(a)), whether or not any of this power has been sold, conflicts with section 6 of the 1964 Northwest Preference Act. BPA's recent dismal record of long-term sales of its surplus firm power shows its inability to market very much of this surplus, even under the highly restrictive NTIAP. This record is highlighted by comparison with the other owners

of the Pacific Northwest portion of the Intertie, Portland General Electric Company and Pacific Power and Light Company, who have sold hundreds of megawatts of long-term power compared to BPA's 100 MW or so, even though BPA's surplus is significantly larger. If the final LTIAP retains this excessively large reservation of capacity for BPA, it could result in long-term power transactions not carried out by Pacific Northwest utilities with a consequent loss of benefits to both regions, but this in itself will not help BPA make its own long-term sales.

16 U.S.C. sec. 838d requires that BPA provide transmission capacity for all utilities on a fair and non-discriminatory basis, so long as such capacity is in excess of the capacity needed to transmit electric power generated or acquired by BPA. This clarifies that a fair and non-discriminatory standard applies to the service requirement in 16 U.S.C. sec. 837e. It is also worth noting that this statute does not use the more limited unduly discriminatory standard of the Federal Power Act, 16 U.S.C. secs. 791a-825r. An important consequence of this statute is that BPA cannot discriminate among utilities by burdening those wishing to carry out one class of power transactions, i.e., firm power sales and seasonal exchanges made subject to burdensome mitigation costs, while allowing other types of transactions, e.g., energy sold on the spot market under Formula Allocation provisions, to take place with no such burden. Nor can BPA simply prohibit transmission service for some types of transactions, e.g., capacity energy exchanges and peaking capacity sales, while providing transmission service for others.

16 U.S.C. sec. 839f(d) requires BPA to furnish transmission service to its utility customers subject only to available transmission capacity, present contractual obligations and any other obligations under existing law. This requirement is expressly in addition to the requirements in 16 U.S.C. secs. 839f(i)(1) and 839f(i)(3). Also, section 9(d) also forbids BPA from discriminating against any utility or group of utilities in providing this service based on such utilities developing new power resources in which BPA does not participate. Unlike section 9(i)(3), discussed below, section 9(d) contains no limitation on the provision of transmission service related to substantial interference with BPA's power marketing program; this must be qualified only by the statute's reference to available capacity, i.e., Intertie capacity which BPA is not using to carry out its own transactions for the sale or exchange of federal energy.

Section 9(d) recognizes that utilities which can sell or exchange power with other utilities, whether by way of sales over the Intertie or power pooling within the Pacific Northwest, without increasing BPA's firm power obligation to any customer, should be given transmission service by BPA with little constraint. Accordingly, this section reinforces the obligations of 16 U.S.C. secs. 837(e) and 838(d). It also prohibits BPA from flatly declining to adjust any lawful limit on the amount of long-term firm transmission service BPA will provide (e.g., Exhibit B in the LTIAP) once utilities, especially those in the Pacific Northwest, build or otherwise develop new resources which they wish to involve in transactions over the Intertie. It also prevents BPA from flatly prohibiting transmission access for certain classes of power transactions, e.g., capacity-energy exchanges and peaking capacity sales, and prevents limits on all long-term firm transactions which are imposed merely because BPA wishes to reserve Intertie capacity for other transactions, like spot market energy sales by non-federal sellers.

16 U.S.C. sec. 839f(i)(3) requires BPA to facilitate the acquisition and sale of electric power by its customers through services including transmission, unless there is an affirmative BPA determination that some transmission service cannot be provided without substantially interfering with BPA's power marketing program, applicable operating limitations or existing contractual obligations. The relevant operational limitations are those applicable to the facilities needed to provide this service, in this case BPA's transmission system. This is much narrower than the very broad statement in Section 3(c) of the LTIAP that encompasses operating limitations of the entire federal system, including generating facilities. Section 9(i)(3) does not allow BPA to place an artificially low ceiling on Intertie capacity available for long-term firm transactions (800 MW in the LTIAP) just because of BPA's apparent inability to date to reach agreement with Pacific Northwest utilities to alter arrangements, such as the Coordination Agreement for the integrated operation of many Pacific Northwest resources, in order to identify clear resource limits for each regional utility and BPA on the amount of surplus firm energy each can use for discretionary transactions, including those with the Pacific Southwest. In short, Section 3(c) of the LTIAP imposes restrictions far too sweeping for the purposes of 16 U.S.C. sec. 839f(i)(3) because it attempts to address BPA's perceived region-wide firm energy concerns in the context of only a transmission access policy affecting just a portion of regional power transactions. The operating limitations portion of Section 9(i)(3) applies only to

things which would prevent BPA from actually delivering electric power to California. It does not address concerns of intraregional resource allocation and allocative equity, which is the only rationale presented thus far for the low capacity limit on long-term firm transmission service besides limiting competition.

Section 9(i)(3) also requires BPA to demonstrate affirmatively that its power marketing program would be substantially interfered with by providing transmission service of a particular type and quantity. As in previous versions of the IAP, the definition of "Administrator's Power Marketing Program" in Section 1, item 2 of the LTIAP is so broad as to encompass everything BPA does, including the LTIAP itself, because it refers to all marketing actions and policies used to fulfill BPA's statutory obligations. As discussed above, these statutory obligations include the requirement to provide transmission service to all utilities. The breadth of the definition in the LTIAP makes it impossible to determine which actions by BPA to provide transmission service to utilities would or would not substantially interfere with this virtually unbounded concept of a Power Marketing Program. A more workable definition of "substantial interference with BPA's power marketing program" in the context of the LTIAP is the provision of transmission service to a utility which would likely or certainly result in either BPA being unable to deliver federal energy or power either under a long-term firm transaction contract or BPA having to spill energy which it would have been able to sell at a marketable price. Finally, section 9(i)(3) prohibits the exclusion of certain classes of long-term power transactions, e.g., peaking capacity sales and capacity-energy exchanges, unless BPA affirmatively determines that such transactions <u>generically</u> substantially interfere with an unambiguously defined BPA power marketing program. BPA has made no such demonstration.

The LTIAP also excludes power from extraregional resources or imposes access charges which may be so high as to effectively exclude these resources through that means. No extraregional power is allowed access to the energy spot market under the Formula Allocation mechanism until all Pacific Northwest surplus energy has been allocated capacity, whether or not any of it is actually sold. Assured Delivery for long-term power transactions is not provided to any extraregional utility unless "consideration of value commensurate with the services provided" is paid or given. (LTIAP, Section 6(a).) In addition, for any long-term extraregional resources from Canada, Assured Delivery is possible only after BPA makes a determination

that the Intertie is rated at approximately 7900 MW. It is not clear whether this is merely a threshhold rating or some precise figure which must be reached, but in any case it represents capacity 50% greater than present Intertie capacity.

With regard to U.S. utilities outside the Pacific Northwest, nothing in the statutory language or legislative history of 16 U.S.C. sec. 837e indicates any distinction in the provision of transmission service between such utilities and those located within the Pacific Northwest. The language of 16 U.S.C. sec. 838d makes no such distinction either. House Report No. 93-1375, the later of two congressional reports on the 1974 Federal Columbia River Transmission System Act, makes no mention of any distinction between utilities inside and outside the Pacific Northwest in addressing the requirements of section 6 of this Act. H. R. Rep. No. 1375, 93rd Cong., 2d Sess., reprinted in 1974 U.S. Code Cong. & Ad. News 5810, 5814. Finally, nothing in the language of 16 U.S.C. secs. 839f(d) and 839f(i)(3) limits to Pacific Northwest utilities BPA's obligation to provide transmission services. While section 9(d) begins by exempting from the restrictions in section 9(c) any power transaction by a utility as long as the transaction does not increase BPA's firm power obligation, and then offers the benefits of section 9(d) to utilities conducting such transactions, it is clear that utilities outside the Pacific Northwest cannot impose any such firm obligations on Bonneville by virtue of the 1964 Northwest Preference Act, 16 U.S.C. secs. 837-837h. Consequently, there is no basis in law for BPA to create a priority in the provision of its transmission services for utilities within the Pacific Northwest.

With respect to the even lower-class status accorded power from Canada compared to power from extraregional U.S. utilities, BPA apparently continues to use a serious misreading of the legislative history of 16 U.S.C. sec. 837e. PG&E notes a similar misreading of this history by the Ninth Circuit Court of Appeals in City of Los Angeles, Department of Water and Power v. BPA, ("LADWP v. BPA") 759 F.2d 684, 694 (9th Cir. 1985). (Given the haste and procedural compromises with which the plaintiff pursued this case to which PG&E was not a party, PG&E chooses to anticipate more thorough and correct consideration of this legislative history by the Ninth Circuit or a higher court if it is raised again.) Ignoring the plain language of the statute itself, BPA merely observes that "The legislative history specifically states that the Administrator 'may' provide transmission for non-Treaty Canadian power

(citation omitted)." (Interim IAP ROD, p.) The statute, however, is unambiguous:

> Any capacity in Federal transmission lines connecting, either by themselves or with non-Federal lines, a generating plant in the Pacific Northwest or Canada with the other area or with any other area outside the Pacific Northwest, which is not required for the transmission of federal energy or [Canadian Treaty power], shall be made available as a carrier for transmission of other electric energy between such areas. ... (emphasis added)

16 U.S.C. sec. 837e. The specific reference to energy from Canada other than the Canadian Treaty power, which is specifically excluded from application of this "residual capacity" transmission service requirement, unambiguously requires the wheeling of Canadian energy over available BPA Intertie capacity. Legislative history cannot be used to introduce ambiguity where it does not exist on the face of the statute.

Moreover, BPA's subversion of this unambiguous statutory directive by the flat assertion that the word "may" in the legislative history must be read as discretionary fails on two counts. First, as noted above, the statute is not ambiguous as to the directive concerning non-Treaty Canadian power, along with power within the Pacific Northwest and in adjacent regions such as California. Second, an examination of the legislative history reveals the mandatory use of the word "may," along with similar language such as "made available" and "authorized":

> Excess capacity in any Federal transmission lines interconnecting the Pacific Northwest with another marketing area is made available for wheeling non-Federal energy. Federal energy and downstream power benefits to which Canada would be entitled under the proposed treaty would have priority to the use of Federal lines. Wheeling agreements on either an excess capacity basis or a firm basis are authorized... . In determining the existence of capacity excess to the needs of the Government, Federal needs reasonably foreseeable may be included, but the Secretary may not decline to enter into a wheeling agreement merely because he may have energy available for sale to serve the same

> load.
> The Secretary may enter into agreements for the wheeling of energy generated in Canada, but such energy stands on the same basis as any other non-Federal energy. It does not have the priority granted to Federal energy and Canada's entitlement to downstream power benefits under the proposed treaty. ... (emphasis added)

H.R. Rep. No. 590, 88th Cong., 2d Sess., reprinted in 1964 U.S. Code Cong. & Ad. News 3342, 3350. Language which in its common usage is permissive is therefore found throughout the legislative history. However, such permissive language used in a mandatory context is mandatory. The statute, moreover, is unequivocally mandatory ("... capacity shall be made available as a carrier for transmission ... between such areas."). It is time for BPA to abandon its unauthorized discrimination against electric energy from Canada in providing transmission service over the Intertie.

Since Canadian Treaty power, in the form of the downstream power benefits which Canada received under the 1961 Columbia River Treaty, is entitled to the same priority as federal energy in access to and use of the Intertie, the LTIAP is deficient in failing to indicate priority access for such power. 16 U.S.C. secs. 837e, 837h; see also LADWP v. BPA, 759 F.2d at 694. Because the LTIAP is proposed to be a policy of indefinite duration, priority for transmission of Canadian Treaty power must be included, to anticipate the expiration of present marketing arrangements for that power in the 1997-2000 period.

b. Conformance with Antitrust Policy. The U.S. Ninth Circuit Court of Appeals has ruled that BPA is required to consider federal antitrust policy when allocating its share of the Intertie. California Energy Commission v. BPA, ("CEC v. BPA") 831 F.2d 1467, 1475 (9th Cir. 1987). There is no evidence in the LTIAP or in explanatory material that BPA has done this, although BPA has previously conceded that it should consider the impact of the Interim IAP on competition in markets potentially affected by this policy. (Interim IAP ROD, pp. 36-37.) The only reference to antitrust policy is in the explanation of the LTIAP accompanying the revised draft policy, and that offers no discussion of BPA's attempts to conform to federal policy itself; instead, it is merely a collection of unsubstantiated and untrue conclusions about allegedly anticompetitive conditions on California's share of the Intertie. This latter problem with the LTIAP is discussed

below as one of BPA's improper justifications for the policy.

BPA's focus only on alleged problems with competition in California and the curious absence of any demonstration that the LTIAP itself does not damage competition looks like a retreat from the BPA Administrator's unequivocal statement to Congress that the LTIAP "must pass certain standards, and I believe it cannot be anticompetitive. The policy that is finally decided on will not be, and it will stand that test." Intertie Access Policy of the Bonneville Power Administration: Oversight Hearing Before the Subcommittee on Water and Power Resources of the House Committee on Interior and Insular Affairs, 100th Cong., 1st Sess., 394-395 (1987) (Statement of James J. Jura, Administrator of BPA).

The Ninth Circuit says that BPA's obligation to preserve competition does not override its statutory obligation to be fiscally self-supporting. CEC v. BPA, 831 F.2d at 1475. Assuming that this is an accurate statement of the law, the LTIAP still fails to preserve competition to the extent not inconsistent with BPA's need to recover its operating cost and repay its federal debt. There are two reasons for this: the LTIAP, like the NTIAP, promises to cause severe harm to competition in the Pacific Northwest-Pacific Southwest bulk power market, and this harm to competition is unnecessary because alternative policies much less harmful to competition still enable BPA to obtain total revenue equal to that BPA can reasonably expect under the LTIAP.

The LTIAP harms competition in both the energy spot market and the market for long-term firm power services. In the spot market, the LTIAP causes severe harm to competition in the form of cartel pricing for spot energy and the exclusion of extraregional producers much of the time. (DFI Study, pp. 3-4, A-15-16, A-28-29.) The result is higher prices (about 8-10 mills/kWh greater during the period between late 1984 and mid-1987) for energy sold to California utilities by both BPA and other Pacific Northwest utilities, compared to conditions before the Interim IAP. (DFI Study, pp. A-31-34.) Another result is the consistent and continuing capture of the great majority of the benefits of spot market energy trade by the Pacific Northwest sellers. (DFI Study, pp. A-36-40.) These results are directly attributable to the Formula Allocation mechanism in both the Intertim IAP and the NTIAP, and the LTIAP would retain the same essential, harmful features. (DFI Study, pp. 4-6, A-15-31.) In fact, BPA has admitted that a result of the proposed LTIAP of October 1986 will be

higher energy prices than without the LTIAP. Intertie Access Policy of the Bonneville Power Administration: Oversight Hearing Before the Subcommittee on Water and Power Resources of the House Committee on Interior and Insular Affairs, 100th Cong., 1st Sess., 397 (1987) (Statement of Harvard Spigal, General Counsel of BPA).

The LTIAP harms competition in the long-term firm market both by limiting access to long-term resources and by reducing the benefits of such transactions. (DFI Study, pp. 8-9, A-41-43.) Some types of transactions are prohibited altogether: capacity-energy exchanges and peaking capacity sales. Other transactions are constrained by limiting the amount of long-term firm transmission capacity made available to an amount substantially less than the amount available even if BPA were able to sell all of its surplus firm power and capacity. This would still leave approximately 2,000 MW out of BPA's approximately 4,000 MW share of the Intertie. The costs of mitigation measures imposed on all long-term firm transactions reduce, or may even eliminate, the benefits of these transactions, in which case they are less likely to occur or may not occur at all. For extraregional resources, the costs are not even specified but a standard of value (in a monopolistically constrained market!) will be used, which should capture much of the benefits for BPA. And Canadian long-term resources cannot even compete until (and if) the Intertie is at least 50 percent larger.

Finally, the LTIAP also harms competition in the interregional bulk power market by creating a powerful disincentive for the construction by Pacific Northwest utilities of new transmission facilities between the two regions. The LTIAP does this by reducing the amount of long-term firm transmission service provided (Assured Delivery) by the exact amount of any new transmission capacity available through construction or contract to a Pacific Northwest utility with an Assured Delivery contract with BPA. (LTIAP, Section 1, item 3, definition of Assured Delivery.) BPA has acknowledged that the loss of Assured Delivery will affect the economics of new non-BPA transmission capacity to the Pacific Southwest. (TR, Cameron, p. 72.) A prime example of this would be reduction of Assured Delivery amounts resulting from non-federal participation in the Third AC line, an issue currently being studied by BPA at congressional behest.

It is unnecessary for BPA to damage competition as the LTIAP does to remain as fiscally sound as with a better access policy. The revenue differential BPA can expect from a less anticompetitive Intertie access policy can be

recovered in BPA's rates to its Pacific Northwest customers, with modest increases.

Short-term transmission service. If the LTIAP's Formula Allocation provision is replaced with the fully "Competitive When Not Spilling" alternative examined in the DFI Study (pp. B-2-4), in the near-term (fiscal year 1989) BPA can expect to receive approximately $74 million less in revenue from surplus energy sales. Id., p. B-4. This is the result not only of a lower price for BPA sales to California utilities, but also reduced secondary energy sales to thermal-based Pacific Northwest utilities and some reduction in transmission service (wheeling) revenues. BPA has identified two additional sources of reduced revenue it expects from allowing more competition in the spot market for energy. (Explanation of LTIAP, p. 9.) First, higher residential exchange subsidy costs due to the lower energy prices received on the spot market by exchanging Pacific Northwest utilities. BPA's worst case estimate for FY 89 in its February 11, 1988 study results is $5.8 million. (As is noted later in these comments, several problems with this study indicate the correct figure is less than half that amount.)

In addition, BPA anticipates the displacement of some PF (preference) customer energy sales in the Pacific Northwest with energy generated by those customers which they do not sell to California when the spot market energy price is less than the PF rate net of the availability charge. BPA estimates the maximum amount of this difference at $5.7 million in FY 89. PG&E thinks that amount is overstated, and may be a net gain, because given the structure of the PF (preference) availability charge, BPA is made whole if instead of being sold to preference customers the energy is sold to California utilities at a rate which recovers revenue at least equal to the forecast revenue BPA used to set availability charge. The forecasted revenue recovery for current rates is 8.2 mills/kWh in the summer and 14.4 mills/kWh in the winter; these figures are from BPA's 1987 Wholesale Rate Development Study (WP-87-FS-BPA-06, pp. 66-67).

In the absence of an unexpected and substantial drop in natural gas prices, BPA should be able to sell this energy at at least these rates to California. In fact, BPA's documentation for these studies (provided to PG&E via telecopy only on February 17, 1988) shows that BPA's sales loss to public agencies is more than offset by increased sales to California. BPA's sales to California (at the NF Standard rate) increased from 1,037 average MW in the "current" case to 1,081 average MW in the "Maximum

Displacement" case. Moreover, the revenue increase from the sales increase of $7.9 million exceeds the revenues lost in the "Maximum Displaced" case. BPA's incremental revenue gain averaged over 20 mills/kWh. Consequently, the effect of this PF energy displacement should be considered as somewhere between a gain of $2.2 million and a loss of $5.7 million.

For short-term energy sales, the maximum total revenue loss to be offset is thus $74 million plus $5.8 million plus ($-2.2 or 5.7 million). This yields a range of $77.6-85.5 million per year in FY 89. Using the conservative assumption that this cost is to be passed on entirely to only two classes of customers, PF (preference) and industrial (DSI) customers, this amount added to BPA's estimate of total revenues from sales under the PF, IP and VI rate schedules of $2,373 million in FY 89. (See Table A-11, WP-87-FS-BPA-08.) This would result in a rate increase of between 3.3 and 3.6 percent.

BPA's ability to recover additional revenue from a given class or classes of its customers depends on the price elasticity of demand for its wholesale electric power by these customers. As long as the elasticity is less than minus 1.0, BPA can increase its total revenue through increasing its rates, even though its customers will tend to reduce their power purchases by some amount. Elasticity for these two customer classes can be computed from BPA's projection of their total energy loads under different rate increase alternatives. In BPA's Environmental Assessment for 1987 Wholesale Power and Transmission Rate Filing (February 1987), BPA presented such load projections based on its 1985 rates (which were subsequently increased by about 7%) at assumed rate increases of 0, 10 and 35 percent (pp. 14,22,24,27,29). Dividing the percent change in load by percent change in rates for FY 90 (FY 89 was not studied), elasticity of demand for PF (preference) customers (all uses) is -.02 to -.07, which is very inelastic. Elasticity for all DSI customers is -.27 to -.53, which is still relatively inelastic. (Long-run elasticities, using the same source of BPA data for FY 2000, are comparable: -.11 to -.13 for preference loads and -.38 to -.52 for DSI loads.) Therefore, BPA can increase its rates substantially to these customer classes without experiencing a net revenue loss. From this data, there is every reason to expect that BPA could increase these rates on the order of 3.3-3.6 percent. (Note that a consequence of elasticity of demand is that BPA would have to raise its rates slightly more than 3.3-3.6% to obtain $77-86 million more revenue per year; but since 77 percent of projected revenue from these customer classes is from PF

(preference) customers, whose demand is very inelastic, the increase would not have to be very much greater.)

Another factor supporting BPA's ability to obtain additional revenue from these customers is the existence in its 1987 rate schedules of a Cost Recovery Adjustment Clause ("CRAC"), which allows BPA to increase its rates up to 10 percent to adjust for a shortfall in actual compared to estimated revenues. This revenue is applicable not only to PF (preference), IP and VI rates, but also to PF (exchange), CF and NR rates as well. Therefore, it can be said that BPA not only views an increase of more than twice the amount indicated above as feasible, but it already has the mechanism in place to accomplish this.

Long-term transactions. Although PG&E has substantial reservations about the analysis BPA performed of the revenue impact of Assured Delivery contracts (distributed January 5, 1988), it can be assumed that this study provides a maximum (worst case) estimate (or overestimate) of the revenue impact of allowing Assured Delivery for long-term firm power transactions on BPA's share of the Intertie. The levelized annual cost of 800 MW of two different combinations of firm power sales and seasonal exchanges, the latter at a 50 percent capacity factor which roughly corresponds to the exchanges PG&E has concluded and is negotiating, is $7-14 million a year. (BPA 1/4/88 Assured Delivery Analysis, Table 1, Alternative 1, l. 5, and Table 2, Alternative 2, l. 5.) These figures assess the revenue affects of allegedly lost secondary and PF energy sales and wheeling revenue gains, and assume no mitigation measures. (Although BPA studied the ostensible effect of not making capacity sales it speculates it could make, BPA has chosen not to include these effects in fashioning the LTIAP. (TR, Cameron, p. 10.) This was a sensible choice, given the purely speculative nature of such sales and alternatives available to the possible buyers.) Using the same rate impact analysis as used above for the energy spot market, recovering these revenues from the PF (preference) and DSI customer classes would require a rate increase of no more than 0.2-0.4 percent. Even if BPA were to provide what may be a more realistic amount of 1,600 MW of Assured Delivery, this would translate into a rate impact of only 0.4-0.8 percent.

The LTIAP's severe damage to competition in the bulk power market is simply unnecessary in order for BPA to obtain its statutory mandate of fiscal soundness, since rates to BPA's Pacific Northwest customers can readily absorb an increase on the order of 3.5-4.4 percent to generate additional revenue of about $100 million per year. This revenue gap

also would shrink over time for two reasons. First, as California adapted to the LTIAP by reducing its short-run marginal costs, given the incentives to do so identified in the DFI Study (pp. 7, B-11-13), the anticipated revenue loss in the energy spot market would diminish because California would pay relatively lower prices for such energy. Second, the same effect would spill over into the energy revenues which BPA projects losing as a consequence of allowing Assured Delivery for long-term firm transactions. Consequently, BPA should revise the LTIAP to conform to the "Fully Competitive When Not Spilling" alternative presented in the DFI Study and to provide long-term firm transmission service (Assured Delivery) in an amount at least equal to BPA's total Intertie capacity less the amount of BPA's actual and demonstrably likely long-term transactions with the Pacific Southwest. BPA should also eliminate the feature of the LTIAP which reduces the amount of Assured Delivery by the amount of new non-BPA transmission built or acquired by Pacific Northwest utilities. There is no justification in terms of BPA's attainment of its fiscal soundness objective for this feature of the policy, and given its adverse affect on competition it cannot be justified by an apparent desire to carry out some inchoate but inappropriate notion of allocative equity among utilities.

3. Improper Justifications for the LTIAP.

a. Low Power Rates to BPA's Pacific Northwest Customers. BPA has offered two other rationales which it thinks support the kind of LTIAP it has proposed, namely one with the anticompetitive problems identified above and in the DFI Study. The first of these is one of the purposes stated in the IDU DEIS, at p. 1-1. That is to "Support the Administrator's ability to maintain reasonable power rates for BPA's wholesale customers in the PNW." To the extent carrying out this purpose means keeping BPA rates for its Pacific Northwest customers lower than they would be otherwise by using an anticompetitive Intertie access policy such as the LTIAP to raise the price of power and energy sold to California utilities and thus presumably increase total revenue, BPA exceeds its statutory authority.

The Ninth Circuit has stated that the need to preserve competition does not override BPA's statutory obligations to be fiscally self-supporting. CEC v. BPA, 831 F.2d at 1475. However, the court identified no other factor which interferes with BPA's obligation to preserve competition rather than destroy it. BPA's statutory obligation to

recover its operating costs and repay its debt over a reasonable period is expressed in 16 U.S.C. secs. 832f, 838g and 839e(a)(1), the latter of which incorporates the standards of 16 U.S.C. sec. 825s. In addition to recovering operating costs and repaying debt, 16 U.S.C. secs. 825s and 838g provide that rates for the sale of federal power should be set in order to encourage diverse use of this power "at the lowest possible rates to consumers consistent with sound business principles." But nothing in these statutes or in case law authorizes BPA to damage or eliminate competition in bulk power markets, specifically the Pacific Northwest-Pacific Southwest market, to attain this objective, which is quite distinct from (and arguably in opposition to) its need to be fiscally sound as a federal agency. Nor do these statutes, or their legislative history, direct BPA to keep its rates to Pacific Northwest wholesale customers as low as possible by applying any means at its disposal, lawful or otherwise, to raise its rates to its California customers as high as possible.

What this purpose of the LTIAP appears to boil down to is to accomplish a wealth transfer from California to the Pacific Northwest. This is done by damaging competition in the bulk power market to the point where the market power exercised by BPA and other Pacific Northwest energy sellers is large enough to capture the majority of benefits and to substantially elevate the price paid by California buyers. (DFI Study, pp. 4, A-31-40.) Since this Northwest price reduction objective has no intrinsic or legal relationship to BPA's obligation to cover its expenses, and because BPA's legal obligation to avoid damaging competition must override a discretionary policy choice such as this one, before using such a purpose to justify the LTIAP, BPA must show that carrying out this purpose to <u>any</u> degree in the LTIAP will not have, or require the utilization of, adverse impacts on competition.

b. Alleged Competitive Problems in California. Perhaps the most troublesome justification advanced by BPA for its anticompetitive LTIAP is the allegedly "restricted market conditions at the southern end of the Intertie" (NTIAP ROD, p. 7), which result in allegedly anticompetitive burdens on California utilities who do not own part of the Intertie. (Explanation of the LTIAP, p. 9.) (BPA offers no explanation of how its decision to increase Pacific Northwest market power by anticompetitive means provides benefits to these California utilities; in fact, the effect should be to increase the cost to these utilities of wholesale power they purchase from California utilities who purchase power and energy directly from the

Pacific Northwest.)

BPA also comments that no California utility has an Intertie policy providing the degree of access BPA offers, as though BPA were just another investor-owned or municipal utility. Id. BPA's whole approach appears to stem from the maxim, honored by time but not by principle, that the best defense is a good offense. Faced with undeniably anticompetitive structure and effect of the LTIAP, like the Interim IAP and NTIAP, BPA asserts that these are justified because California does not use its portion of the Intertie in some optimally competitive fashion of which BPA is the sole judge. There are two types of flaws in BPA's defense: first, California utilities are not required by law to conform to BPA's notion of how the Intertie should be used, since only a court or regulatory agency of competent jurisdiction can make those judgments and none has; and second, BPA's "record" on the issue of competitive problems in California consists of no more than its eager agreement with allegations made by California utilities wishing to capture the valuable resources of other utilities for their own selfish ends, without any review by BPA in the kind of adjudicative fact-finding process which every self-respecting, lawful court and regulatory agency must engage in before reaching conclusions which may have a profound effect on individual rights and benefits.

Bonneville admits that there are different legal obligations which apply to it compared to California utilities. (TR, Cameron, p. 243.) A utility such as PG&E is expected to use the investment of its shareholders in transmission facilities such as the Intertie for the benefit of its customers and shareholders. Although the rates under which it provides transmission service to other utilities and the relevant terms and conditions of service contracts are regulated under the Federal Power Act, there is no statutory directive to use PG&E's share of the Intertie as a carrier for other parties in the manner required of BPA by 16 U.S.C. sec. 837e. Despite this, at present PG&E provides 900 MW of firm transmission service under long-term contracts to the California Department of Water Resources, the Sacramento Municipal Utility District (50 MW of which is used by other utilities) and the U.S. Western Area Power Administration, as well as providing interruptible transmission service under interconnection contracts to several northern California municipal utilities. The fact that California's owners and users of the Intertie do not operate in the same fashion as BPA is required to by law provides no justification for an anticompetitive LTIAP.

BPA also attempts to find justification for its anticompetitive approach to the LTIAP in the dissent in CEC v. BPA which would have struck down the NTIAP. In stating that BPA has no statutory authority to create a cartel for non-federal electric power sellers in the Pacific Northwest, Judge Norris said that if these non-federal entities believe that Pacific Southwest utilities are using unfair monopsony power on the Intertie, their remedy is in court. BPA's response pointedly ignores the reference to non-federal energy sellers altogether. BPA states that the courts are too slow because a proceeding involving allegations of anticompetitive conditions heard by a regulatory agency, FERC Docket No. E-7777, has been ongoing for 15 years without resolution or remedies. (Explanation of the LTIAP, p. 9.) This appears to be nothing more than BPA's admission that the due process requirements of both courts and regulatory agencies, which may require time in the interest of justice and the protection of constitutional rights, are too slow and hinder BPA from pursuing the end of maximizing revenue from California through any means it desires.

BPA has succinctly stated the essence of the problem it perceives with California's use of the Intertie: BPA could reach more markets in California and elsewhere in the Southwest if ownership and use of the Intertie in California were not as "concentrated" as at present. (TR, Cameron, p. 257.) BPA merely wants PG&E and other utilities in California with rights to use the Intertie to turn over some or all of their shares more extensively to other utilities in California who have less or no use of the Intertie at present, so that BPA can sell its surplus power to whomever it wishes whenever it wants in the amounts and prices it desires. All of BPA's allegations about insufficient competition on the southern end of the Intertie boil down to that complaint.

BPA wants the California market to operate according to its dictates, and when it does not, BPA's response is to make accusations and unsubstantiated conclusions of anticompetitive conditions. All this demonstrates is BPA's desire to exceed its statutory mission by controlling bulk power markets in other regions of the United States. It also points to BPA's substantial failure to competitively market its long-term firm surplus power despite the success of its competitors in the Pacific Northwest, both the other Intertie owners (Portland General and PP&L) and other utilities, such as Montana Power Company, who seek long-term Intertie access to market their firm surplus power under deals with California utilities. It appears

that BPA's Power Marketing Program is to avoid having to fit sales to the market, by altering the market (i.e., competition) so radically that buyers will have to meet BPA's monopolistically high expectations.

BPA's complaint about its inability to dictate how California uses its Intertie should be noted in the context of three important facts. First, the utilities and government agencies which presently have ownership or long-term contractual usage rights on the Intertie serve well over 90 percent of the load in California, so BPA is not and has not been prevented from selling its power to most of the California market. Second, the present pattern of Intertie ownership and long-term use was approved by Congress at the time Bonneville itself was authorized to participate in the construction of this major transmission system. 16 U.S.C. sec. 837g; see also H.R. Rep. No. 1822, 88th Cong., 2d Sess., reprinted in 1964 U.S. Code Cong. & Ad. News, 3388-3395. Third, most of the utilities in California, except LADWP which chose not to participate, plan to construct the California-Oregon Transmission Project ("Third AC line"), which will give a number of small California utilities ownership rights on a facility which would be directly interconnected with the Intertie.

PG&E denies BPA's allegation and the conclusions BPA reaches that BPA is harmed by the use of the Intertie in California. BPA admits that it has conducted no study to demonstrate any revenue impact of the alleged anticompetitive problems on the Intertie in the Pacific Southwest and has no plans to do so. (TR, Cameron and Metcalf, p. 181.) BPA has merely assumed that the IAP equalizes the market power of sellers in the Pacific Northwest compared to that of buyers in the Pacific Southwest. (Interim IAP ROD, p. 27.) In fact, the Interim IAP and NTIAP have given the Pacific Northwest sellers far more market power in the spot market for energy (the long-term firm power market has had little opportunity to function under these interim policies) because the Pacific Northwest captures the large majority of transaction benefits and the price for energy has been significantly increased as a direct consequence of these policies. (DFI Study, pp. 4, A-31-40.)

BPA has thus presented no basis for its conclusion that California's use of the Intertie harms BPA, let alone harms it in some manner inconsistent with law as adjudicated by a body competent to do so. Even if BPA were able to demonstrate such harm, the only valid purpose to which it could put such a demonstration under its statutory obligations to preserve competition would be then to

further demonstrate that its choice of an LTIAP was incapable of damaging competition because California conditions had somehow done this already. Yet such a conclusion, even if BPA could properly reach it, would fly in the face of PG&E's demonstration that the Interim IAP and NTIAP, using features essentially identical to those in the LTIAP, did severely damage competition in the interregional bulk power market. (DFI Study, pp. 3-6, A-15-40.) It follows from PG&E's demonstration that there used to be substantial competition in this market which BPA was able to damage with its IAP.

In the recent public meetings BPA held on the LTIAP, its representatives identified six items which BPA views as validating its conclusion about the level of competition among California buyers of Pacific Northwest energy and its impact on BPA and other sellers of energy in the Pacific Northwest. None of them is a sound basis substantively for BPA's conclusions. First, BPA looked at the concentration, in a qualitative sense, of Intertie ownership in the Pacific Southwest. (TR, Cameron, p. 226.) This provides no basis from which to assess such things as relative market power or monopolistic use of such power. It also ignores the use of the California portion of the Intertie by both holders of long-term firm transmission service contracts and contract rights for interruptible transmission service by focusing only on ownership. Second, BPA says it has "tracked" FERC Docket No. E-7777, to which PG&E is a party. Id. However, the evidence offered in that strongly-contested proceeding cannot be said to support BPA's conclusions unless you ignore most of the evidence which points in a different direction. Also, there has been no final judgment by the FERC in this proceeding, let alone one which is no longer subject to appeal; these proceedings therefore have no force of law which BPA can rely upon.

Third, BPA is "aware" of antitrust actions in federal district court brought against Southern California Edison. Id. As with the FERC proceeding, there is no final judgment in one of these cases, let alone exhaustion of any appeals, and the other proceeding has not even come to trial. BPA concedes that there are no final judgments in these proceedings. (TR, Cameron, p. 226.) This litigation, therefore, cannot serve as the basis for any definitive choice or action by BPA.

Fourth, BPA observes that California users of the Intertie do not always let other parties use their shares when these shares are not fully loaded, and BPA concludes that this must be damage due to ownership. (TR, Griffin, p. 227.)

BPA again inappropriately singles out ownership instead of all rights to use; but more importantly BPA provides no logical, let alone empirical, connection between this observation and its conclusion of damage. Also, because no California user of the Intertie is obligated to act as a common carrier, there is no obligation to always make unused shares available to other parties. As PG&E observed above, however, under existing contractual arrangements there are several California utilities who have rights to use unused portions of PG&E's share of the Intertie on an interruptible basis and upon request. It should also be noted that the LTIAP's Formula Allocation scheme does not avoid unloaded pro rata shares. (TR, Griffin, Haines, p. 210.) Fifth, BPA has "drawn certain inferences" from its reading of the California Power Pool Agreement, presumably inferences of competitive problems. (TR, Cameron, p. 229.) This agreement has no relevance to use of the Intertie.

Lastly, BPA states that it has "heard from utilities like the City of Vernon, other so-called 'have not' utilities within California about their difficulties." Id. As mentioned above, the statements of such entities stem from their desire to advance their own competitive position at the expense of the present owners and users of the Intertie by capturing parts of a facility presently used for the benefit of many customers in California and converting it to use for the benefit of far fewer. The City of Vernon, for example, has a population of 92 and a total of 2,092 customers (including commercial and industrial). (Electrical World Directory of Electric Utilities, p. 91 (1986).) PG&E has a total of 3.76 million electrical customers, id., p. 76, and the population served in the PG&E service area was approximately 10.8 million on December 31, 1986. Moreover, PG&E and other parties involved in the litigation mentioned by BPA and discussed above have presented extensive evidence rebutting the "difficulties" alleged by these other California utilities. For BPA to conveniently conclude that their allegations are true because this furthers BPA's goal of maximizing revenue from California using any means, particularly given BPA's statement that it has no intention of waiting for valid, final, non-appealable judgments in the judicial and administrative proceedings where these issues have been joined, indicates that BPA's reliance on these assertions offers no weight whatsoever in justifying the LTIAP.

4. Section 5(d) should be implemented immediately and unconditionally.

One of the changes from the October 1986 proposed LTIAP to the current draft of the LTIAP is its Section 5(d), which

provides that upon commercial operation of the Third AC "interconnection" (line), BPA will no longer allocate individual shares in available Intertie capacity to non-federal utilities in Conditions 2 and 3 under the Formula Allocation process. However, this change is linked to the possibly accurate but irrelevant assumption that the market power of California Intertie owners will be reduced upon commercial operation of this new line. Consequently BPA retains the right to avoid implementing this change in the Formula Allocation mechanism if the Administrator determines that "Intertie access continues to be impaired for California utilities presently lacking ownership in the southern portion of the Intertie, or Southwest utilities utilize some pro rata scheme to allocate energy purchases over the Intertie."

Because BPA lacks any justification for continued use of the anticompetitive features of the LTIAP, such as pro rata shares allocated under Conditions 2 and 3, the final LTIAP should incorporate the change proposed in Section 5(d) without either the requirement of the Third AC line becoming commercially operational or the conditions subsequent which BPA could use to defeat this change in the Formula Allocation mechanism. As demonstrated above, BPA does not need to use these anticompetitive features of the LTIAP to achieve its revenue objectives, because at most modest rate increases to some or all of its Pacific Northwest customers will make up any shortfall it can expect to realize from restoring competition to its share of the Intertie during other than actual spill conditions. Moreover, BPA is not authorized by statute to create its own remedies to alleged anticompetitive situations in California because it has not been granted the authority of a regulatory agency such as the Federal Energy Regulatory Commission, which has exclusive jurisdiction over the rates and the relevant terms and conditions under which PG&E and other privately-owned utilities provide transmission service, e.g., on their shares of the Intertie.

Even if BPA were authorized to regulate the Pacific Northwest-Pacific Southwest bulk power market based on conformance with federal antitrust policy, it could not do so through bypassing due process protections created to safeguard persons and businesses from the arbitrary abuse of governmental power. BPA cannot simply reach conclusions about anticompetitive situations for the purpose of prescribing remedies in the form of competition-constricting features of a LTIAP without an evidentiary hearing, among other protections.

This is far more than BPA thinks it is required to do in

connection with Section 5(d). BPA has developed no criteria to use in making a determination as to whether access to the Intertie in California is "impaired," and there has been no decision to include such criteria in the final LTIAP. (TR, Cameron, pp. 232-233.) Moreover, BPA does not intend to allow for the assessment of evidence through allowing parties, like PG&E, to present their own evidence and cross-examine the evidence presented by others, including BPA, in an adjudicative process. BPA expects simply to make an administrative determination without the due process protection available in a federal regulatory agency such as the FERC. (TR, Cameron, p. 234.) If BPA actually has the authority to make such findings about impairment of Intertie access or use of pro rata allocation schemes, and consequently to affect property rights of California utilities with ownership and contractual rights to use the Intertie, it must do so in an adjudicative process providing the due process protections used by federal regulatory agencies such as the Federal Energy Regulatory Commission. Criteria for making any such determination should have been previously established through a rulemaking procedure. The only sort of standard BPA has presented to date is the unsupported conclusion that sufficient competition on California's share of the Intertie will exist when (the diversity of) Intertie ownership increases upon commercial operation of the Third AC line. (TR, Cameron, p. 230.) Like all of BPA's statements about competition on the California portion of the Intertie, this one, too, lacks all probative evidentiary basis behind it.

If, despite PG&E's understanding to the contrary, BPA can implement a feature of the final LTIAP like Section 5(d) with its condition precedent and conditions subsequent, there is at least one revision which should be made and one consideration which should be applied. The first condition subsequent in Section 5(d) should not refer to all California utilities which presently do not own part of the Intertie, because there are numerous members of that class who have various kinds of contract rights for transmission service on the Intertie some of which are essentially indistinguishable, except perhaps in duration, from the rights enjoyed by those utilities owning the facilities themselves. In fact, after the expiration of the Pacific Intertie Agreement, and assuming it is not extended in substantially the same form, two of the three investor-owned parties to that agreement would have no further contractual rights to receive and deliver energy at the California-Oregon border. Instead, in 5(d) BPA could use a standard which refers to California utilities without any access whatsoever to the Intertie and which have

previously indicated a desire for such access; or, if BPA can lawfully insist on a standard incorporating some concept of adequate share of Intertie use, such standard should provide that this share could not exceed the relative share of end-use load served in California for those utilities desiring greater use of the Intertie than they have presently.

The consideration is that in making any determination with respect to a "pro rata scheme to allocate energy purchases over the Intertie," BPA should not assume that the Supplemental Letter Agreement to the Memorandum of Understanding -- California-Oregon Transmission Project ("Letter Agreement") embodies such a scheme. BPA presently appears to make the assumption that it is. (TR, Cameron, p. 230.) While the Letter Agreement is merely a statement of principles which has to be implemented in agreements for the use of the California-Oregon Transmission Project, PG&E's understanding of the way in which the Letter Agreement would operate is such that it will not have any adverse effect on whatever competition BPA allows to exist in the interregional bulk power market.

First, the Letter Agreement applies only to sales of non-firm energy by BPA, not to any other form of energy or power or to any other seller in the Pacific Northwest or elsewhere. Second, the Letter Agreement allocates available non-firm energy from BPA among certain California buyers only at times when the amount of such energy available for sale to California is less than total available Intertie capacity.

Third, this allocation is made only at times when BPA itself is allocating this energy among buyers on some basis other than price, i.e., selling all of it at one price. To the extent BPA is selling any defined portion of such energy at one price and BPA is allocating that portion among buyers on some basis other than price, the Letter Agreement allows certain of the California buyers to determine that allocation among themselves. Consequently, there can be no adverse impact on price competition because the Letter Agreement does not allow any California buyer to require any particular allocation of BPA non-firm energy except when there is an allocation of such energy being sold at a given price.

For these reasons, the Letter Agreement is incapable of harming BPA or any other Pacific Northwest energy seller. This illustrates the overbreadth of the second condition subsequent in Section 5(d), because a pro rata scheme allocating energy purchases over the Intertie cannot a

priori be said to have any adverse effect on competition. Therefore, if BPA chooses to retain something like this second condition subsequent, it should be modified to refer only to an allocation scheme which has a demonstrably significant adverse effect on competition in the interregional bulk power market. Standards would have to be established to determine this through a rulemaking.

5. Lack of Justification for Assured Delivery Limits and Mitigation Requirements

a. MW Limits. The LTIAP would place an artificially low ceiling of 800 MW on all long-term firm transactions other than BPA's. Exhibit B would further limit these transactions to 361 MW for firm power sales and 440 MW for seasonal capacity exchanges. No valid reason has been provided for compartmentalizing the limits for these two types of transactions, because even if there is a valid operational basis for an 800 MW limit, it rests on a total quantity of surplus energy available, e.g., in August, rather than any unique characteristic of one or both of these types of services.

However, BPA has presented no information which justifies an 800 MW limit itself for any reason other than limiting competition with BPA's surplus firm resources. Indeed, the draft Seasonal Exchange Study Results of the NWPP (December 22, 1987) demonstrates no harmful effects to the Pacific Northwest coordinated hydro-thermal system for up to 1,500 MW of seasonal exchanges. In fact, this study indicates an appreciable gain the ability to serve Pacific Northwest loads, apparently in terms of enhanced reliability stemming from the receipt of firm energy in the Northwest peak demand season which coincides with minimum reservoir levels; and an overall gain in both reservoir refill and reservoir draft impact prior to Labor Day.

BPA has asserted that the need for such a low limit on long-term firm transmission service is based on its concern of adequate availability of surplus Firm Energy Load Carrying Capability of the coordinated Pacific Northwest system in the month of August. First, any such limit has no bearing on the amount of transmission service which can be made available to extraregional utilities, because their resources are not part of this coordinated system. Second, each Pacific Northwest utility which participates in this coordinated system should have knowledge of the limit of its resources, including its ability to draw on this system for firm energy. If such discrete limits do not exist at present, it is up to the parties to the Coordination Agreement to create them so that their transactions with

the Pacific Southwest and elsewhere will be determined on a utility-by-utility basis, based on the present and future resources and loads each utility is obligated to serve.

The fundamental lack of justification to an overall Assured Delivery limit based on August FELCC is also demonstrated by BPA's willingness to provide Assured Delivery to Pacific Northwest utilities outside the limits of Exhibit B as long as that utility is willing to purchase additional power from BPA or to allow BPA to provide some of the power that utility would otherwise provide to California. (LTIAP, Section 4(c).) Confronted with this contradiction, BPA representatives could only point out that Section 4(c) offers but does not commit to carry out such transactions. (TR, Griffin, pp. 82-83.) Nevertheless, nothing in Section 4(c) limits the availability of such "offers" to any amount, let alone tying them to a non-defined limit to August FELCC.

As noted earlier, BPA has the statutory right to reserve a portion of its Intertie share to meet its reasonably foreseeable needs, but even if BPA is able to market all of its surplus firm resources it will still have approximately 2,000 MW available to provide Assured Delivery to utilities. Given BPA's poor performance in recent years in marketing its long-term firm surplus, the amount of Intertie capacity BPA chooses to reserve for this basis should be based on its actual long-term sales and exchanges and perhaps other long-term firm transactions demonstrably likely to occur, i.e., based on persuasive evidence and not mere speculation or the calculation of all available surplus resources.

Section 4(b) of the LTIAP requires a Pacific Northwest utility with which BPA has a power sales contract to waive BPA's obligation to serve under that contract up to the amount of power for which Assured Delivery is provided. PG&E does not object to such a provision, because it eliminates a resource concern BPA may have in providing Assured Delivery and appears to be a form of implementing Sections 2 and 3 of the Northwest Preference Act, 16 U.S.C. secs. 837a and 837b. BPA has voiced concerns about the enforceability of Section 4(b). (TR, Cameron, p. 21.) Any such concerns about enforceability, however, are common to all uses to which resources obtained such a power sales contract with BPA are put; and there is nothing inherent in the nature of long-term firm transmission service on the Intertie which creates a unique problem in this regard such that BPA can justify imposing any capacity limit on Assured Delivery below the amount remaining after it reserves capacity for its long-term firm transactions and those

using Canadian Treaty power.

b. Mitigation Requirements. Section 4(d)(4) of the LTIAP contains several mitigation measures applicable to Assured Delivery contracts. As BPA demonstrates in its study on Assured Delivery contracts of January 4, 1988 (in Table 3), these mitigation measures are intended to impose substantial costs on any utility conducting a long-term firm interregional transaction. Since BPA is expected to set its transmission rates and charges to non-federal users of the Federal Columbia River Transmission System on the basis of recovering the costs of operating and paying the debt associated with that system (16 U.S.C. sec. 839e(a)(1)), PG&E is not aware of BPA's statutory authority to impose such additional costs. Moreover, as discussed above, BPA can recover any reduction in revenue it expects due to providing Assured Delivery from its Pacific Northwest customers, without having to burden the competitive use of its share of the Intertie for long-term firm transmission service.

Also in this regard, BPA has provided no rational basis for imposing additional costs for long-term firm transmission service, either as operational mitigation or, if it should propose one, a direct charge as part of transmission rates, when it has not done so in the LTIAP for short-term transmission service for energy sales on the spot market. Nothing in its statutes allows BPA to burden one class of transmission service while leaving another untouched, where the adverse impact is of the same type. This violates the fair and nondiscriminatory service requirement of 16 U.S.C. sec. 838d. Moreover, the imposition of such mitigation costs or charges would also constitute ratemaking, for which BPA would have to conduct a process in accordance with 16 U.S.C. sec. 839e(i), which it has not done.

In addition, two of the three types of mitigation measures contained in Section 4(d)(4) of the LTIAP bear no functional relationship to the types of adverse impacts identified by BPA in its Assured Delivery analysis of January 4, 1988. The requirement to schedule all exchange return energy at either the California-Oregon border or the Nevada-Oregon border is intended to generate additional transmission service (wheeling) revenue for BPA and to allow BPA and Pacific Northwest utilities not participating in a seasonal exchange an "equitable" share of the potential market created by counter-scheduling. (TR, Metcalf, pp. 100-101.) The other mitigation requirement unique to seasonal exchange returns is the prohibition on utilization of "cash-out" provisions in a seasonal exchange contract during Conditions 1 or 2 under the Formula

Allocation mechanism. The purpose of this requirement is to allow BPA and Pacific Northwest utilities not participating in the exchange to share in the potential energy market created by this prohibition. (Id.; TR, Metcalf, pp. 51-52.) In short, these are merely revenue-generating devices with no link to alleged adverse effects of Assured Delivery. They are not even limited to generating revenue for BPA. No justifiable basis has been presented for offering such a windfall to Pacific Northwest utilities which do not participate in seasonal exchanges.

The other mitigation measure at least appears to have some relationship to the alleged loss of non-firm energy sales by BPA during Condition 1. This provision, applicable to both firm sales and seasonal exchanges, requires a utility with an Assured Delivery contract to use its Intertie allocation during Condition 1 first to deliver the amount of its energy obligation to a Pacific Southwest party to the firm sale or exchange. If that allocation is not large enough to provide the full amount of the energy obligation, LTIAP Section 4(d)(4)(A) requires that utility to purchase the deficit from BPA.

However, since BPA will virtually never be allocated all of its available Intertie capacity in Condition 1, a requirement to purchase any deficit from BPA alone provides an unnecessary windfall for BPA. Instead, to the extent this mitigation requirement is lawful and adequately justified, it should be revised to require any deficit to be made up by purchasing from another Pacific Northwest seller, including BPA. BPA should receive a share of this new market about the same as its share of the existing non-firm energy market in Condition 1. To assure the firmness of firm sales, seasonal exchanges and other long-term firm transactions which BPA should provide Assured Delivery for, BPA should be obligated to act as a seller of last resort if Pacific Northwest utilities having allocations during Condition 1 cannot or choose not to sell to another utility requiring such energy to deliver its entire firm obligation to the Pacific Southwest.

Finally, there is no reason why the same mechanism cannot be applied to long-term firm transactions of extraregional, including Canadian, utilities, even though such utilities would not receive any allocation in Condition 1. This just means that they would have to purchase the full amount of their firm energy obligation from BPA and other Pacific Northwest sellers with allocations. However, as discussed above, it is not clear why this mitigation requirement cannot be avoided by BPA adjusting its rates for power sold in the Pacific Northwest to offset any forecast revenue

shortfall.

6. Lack of Justification for Allocation to Market Instead of Allocation to Intertie in Condition 1

Section 5(c)(1)(B)(ii) of the LTIAP states that the BPA will allocate to all Pacific Northwest sellers no more capacity during Condition 1 than what it determines to be the Pacific Southwest market at BPA's applicable rate, when this market is less than the available Intertie capacity. This feature of the LTIAP harms price competition, (DFI Study, pp. A-21-22, A-27-28) and BPA concedes that this feature has been designed to avoid the ability of Pacific Northwest utilities under these circumstances to undercut BPA's energy price. (Explanation of the LTIAP, p. 7.)

Like other aspects of the LTIAP which harm competition, this feature is not justified because BPA can obtain additional revenue by raising rates modestly to its Pacific Northwest customers, as discussed above. BPA proposed, at its public meeting of January 27, 1988, an alternative form of Formula Allocation which would eliminate allocation to the market under Condition 1 and instead use allocation to available Intertie. To the extent BPA may lawfully impose some Formula Allocation scheme during spill conditions, PG&E agrees this alternative is preferable in principle, although not all the features described in BPA's proposed change are sound.

7. A Concern Regarding Fish and Wildlife Protection

In these comments, PG&E gives only limited attention to Section 7 of the LTIAP, which addresses fish and wildlife protection. PG&E believes that the comments on these provisions provided by Pacific Northwest utilities should adequately address relevant concerns and possible needs for modification. However, one plausible consequence of Section 7 presents such a glaring problem that comment seems appropriate. It is inappropriate and unfair to reduce the amount of short-term (Formula Allocation) and long-term (Assured Delivery) transmission service provided to a regulated utility in the Pacific Northwest because it is required by a state regulatory agency, pursuant to the federal Public Utility Regulatory Policies Act of 1978, to acquire a new resource in a protected area. A regulated utility has no control over such a situation, and yet Section 7 would severely penalize it. In addition, this provision would hurt a Pacific Southwest purchaser of long-term firm resources from such a Northwest utility, by creating a significant contingency concerning the availability of these resources. Finally, the existence of

this contingency would tend to reduce the value to a Pacific Southwest utility and consequently the price or other benefits obtainable by the Pacific Northwest utility for its current resources.

In its letter of February 11, 1988, on this subject among others, BPA suggests that because at least one Pacific Northwest utility commission has indicated that its pricing of PURPA resources would be carried out in such a way as to lower the avoided cost paid by a regulated utility for a hydro resource developed in a protected area, this "alleged conflict" may be overstated. PG&E thinks it is not overstated because there can be no guarantee either that state regulators will carry out the setting of avoided costs for PURPA resources in this way or that avoided costs, even if set this way, will discourage the developers of such resources from instructing them and selling power to a regulated Pacific Northwest utility. Consequently, BPA should modify Section 7 to exempt from its enforcement provisions acquisition of the output from a hydroelectric project installed in a protected area, the acquisition of which is beyond the control or discretion of a Pacific Northwest utility receiving transmission service from BPA over the Intertie.

8. Inaccuracy in BPA's Studies

The preceding comments have identified a number of inaccuracies leading to questionable results in some of the studies BPA has performed in support of the LTIAP. PG&E offers some additional comments below. However, time and space do not permit discussion of all of the inaccuracies and incorrect assumptions and results PG&E believes are in these studies.

a. Assured Delivery Analysis. First, this study calculates a net present value of financial harm to BPA as a result of all transactions beginning in 1989. Most of the exchanges either contracted for or essentially concluded between PG&E and Pacific Northwest utilities do not begin until the early 1990's; therefore, the impact of approximately 650 MW of seasonal exchanges is overstated. Second, this analysis employs an implicit assumption that the phenomena identified as "displaced capacity sales" are permanent for the 18-year horizon of the study. While PG&E appreciates the fact that the LTIAP has not been designed with these impacts in mind, which is appropriate because of their exceedingly speculative nature, BPA nevertheless chose to analyze them in this study. The analysis is fundamentally flawed because load growth in both the Pacific Northwest and the Pacific Southwest will create an

additional market for capacity in a matter of a few years, in amounts at least equal to the projected amounts of these displaced capacity sales. Even if some existing capacity needs are satisfied by firm power sales and seasonal exchanges from Pacific Northwest utilities, BPA's opportunity to compete for capacity sales cannot be displaced for longer than the period in which load growth equals the amount of displacing sales and exchanges.

Third, in this study's analysis of lost secondary energy sales, BPA assumed that it would serve 60 percent of this market whenever the coordinated Pacific Northwest system is not supply constrained. However, since this analysis is predicated on the existence of the Formula Allocation mechanism in the LTIAP, BPA is only affected during those times when the exchanging Pacific Northwest utility receives an allocation on Intertie less than the amount of its Assured Delivery. Only then does the potential exist of that utility using some Intertie capacity which BPA might otherwise have used to make a non-firm energy sale to California. Also, BPA conceded that assuming a 60 percent portion of secondary energy sales in Condition 3 is probably an overstatement. (TR, Lamb, pp. 302-304.)

b. "Worst Case" Exchange Subsidy Effects study. The results of this study were released on February 11, 1988. On February 17, 1988, PG&E received some documentation on this study, and after very limited time for review, offers the following comments. First, this study overstates exchange costs because it assumes lower prices on the spot market for energy during Condition 3, although little if any change in price would result in that period from eliminating the Formula Allocation. During the period from September 1984 through September 1986, BPA's data show that the Intertie was in Conditions 3 and 4 about 19 percent of the time. (Computed from Attachment 1 to Response 1, letter of April 1, 1987 to the Honorable George Miller from James J. Jura; see Intertie Access Policy of the Bonneville Power Administration: Oversight Hearing Before the Subcommittee on Water and Power Resources of the House Committee on Interior and Insular Affairs, 100th Cong., 1st Sess., 684-685 (1987) (Additional Comments of Robert J. Haywood).) Current BPA studies using its System Analysis Model show that Condition 3 exists about 45 percent to the time in 1987-88 and grows to over 85 percent of the time by 1991-92. Consequently, the "no access" effect should be reduced for sales the exchanging utilities could make during Condition 3. Moreover, most if not all sales not made in Condition 2, since this is not a spill condition, could and would be deferred to be made under Condition 3.

Second, BPA assumed that Portland General Electric would sell 257 aMW to California each year. However, PGE's 1987 expected resources study submitted with November 3, 1987 Average System Cost filing shows total non-firm sales (to both the Pacific Northwest and the Pacific Southwest) of only 150 aMW. (Oregon Public Utilities Commission Case No. 01-25-85-33-T-B-000.) The impact on PGE exchange subsidy costs should be reduced accordingly.

Finally, and most important, less than one-half of any increases in the amount of the residential exchange subsidy must be recovered from the rates of customers other than the exchanging utilities themselves. (While not presented here, PG&E will provide its calculations to BPA upon request.) These costs are reflected in BPA's exchange resource cost pool. Because of various rate design features utilized by BPA, more than 50 percent of these costs are borne by the utilities participating in the residential exchange program. The result is that the impact of any increase in residential exchange costs from BPA's study has been overstated by at least a factor of two.

9. A Preferred Long-Term Intertie Access Policy

To conclude these comments, PG&E summarizes the features of an LTIAP which corresponds to the short-term transmission alternative examined in the DFI Study, and which has a far less adverse impact on competition and PG&E's interests in obtaining the maximum amount of cost-effective resources which can be made available over the Intertie than BPA's revised draft LTIAP. BPA should not take the description of this alternative as an admission by PG&E that BPA has the legal authority to impose such constraints on competition as may still be present in this alternative. The alternative is presented because it is preferable although not optimal, and because it is clearly capable of meeting BPA's statutory financial objectives, as discussed above, as well as BPA's requirements to provide transmission service over its share of the Intertie.

a. Short-Term Transmission Service. During all times other than spill or imminent spill conditions on the Federal Columbia River System, BPA, Pacific Northwest utilities and extraregional utilities compete for access on Intertie capacity available after BPA has met its contractual obligations, including its own firm power transactions, Canadian Treaty power transactions and the provision of long-term firm transmission service. Capacity is allocated on the basis of transactions concluded with Pacific Southwest utilities, and available Intertie

capacity cannot be over-subscribed because Pacific Southwest utilities face the same limits on available capacity in arranging interregional transactions.

During spill or imminent spill conditions, a formula allocation mechanism similar to that proposed in the LTIAP is used to assign shares of available Intertie capacity to BPA and Pacific Northwest utilities based on declarations of available surplus energy from hydro and "must run" thermal resources. Allocations are made to available Intertie capacity and not to any estimate of the Pacific Southwest market. BPA caps its energy sales at 50 percent of California buyers' average decremental cost, to assure sharing of benefits since in spill BPA's incremental cost is zero.

Spill or imminent spill is used as the condition justifying this market constraint rather than spill or "likelihood of spill" as used in Section 5(c)(1)(B) of the LTIAP for two reasons. First, likelihood of spill is too vague a standard which is subject to abuse and damage to competition, because it would permit BPA to impose competitive restraints when they would not be needed or justified. Second, in PG&E's judgment such constraints are appropriate only when surplus non-firm energy would be spilled if not sold. When that is not the case, BPA can store the energy and sell it at a later time.

b. Long-Term Transmission Service. BPA first reserves (1) capacity on its share of the Intertie sufficient to deliver its actual sales and exchanges and demonstrably likely additional sales and exchanges, not its total surplus firm energy available for sales and exchanges, and (2) the capacity needed to deliver Canadian Treaty power to the extent it is sold to California utilities after 1997-2000. The reservation should correspond to the actual shaping of energy under these long-term firm transactions. BPA makes all remaining capacity on the Intertie available to other utilities, both Pacific Northwest and extraregional, on a first-come, first-serve basis. No lower capacity ceiling is imposed, since each selling or exchanging utility will commit long-term resources only on the basis of what it has available for delivery to the Pacific Southwest. BPA may choose to retain Section 4(b) of the LTIAP, a requirement that Pacific Northwest utilities with BPA power service contracts waive BPA's service obligation in the amount of the utility's long-term firm transactions with the Pacific Southwest. Such non-BPA long-term firm transactions can include conservation and renewable resources, at least to the extent consistent with any lawful environmental

constraints.

Finally, there is no deduction of any amount of Assured Delivery for new transmission facilities constructed or acquired between the Pacific Northwest and the Pacific Southwest. There is no prohibition of cash-out provisions in exchange contracts, all types of long-term firm transactions are provided with Assured Delivery, and scheduling return exchange energy at the California-Oregon border or the Nevada-Oregon border is not a requirement of the LTIAP. There are no mitigation requirements or charges except BPA's cost-based transmission service rates, because BPA can recover modest revenue losses during spill in its Pacific Northwest rates.

* * * * *

As these comments show, the LTIAP is in need of very substantial revision in order for it to conform to law and so that BPA can avoid the creation of substantial inefficiencies and waste of resources in both regions. Perhaps more for the Pacific Northwest than for California, economic well-being and environmental soundness depend on BPA carrying out its influential role in interregional energy transmission with the kind of enlightened self-interest which facilitates rather than constrains bilateral transactions in the bulk power market freely arrived at and involving as many Pacific Northwest utilities as possible who rely on BPA's share of the Intertie as a carrier for their transactions with the Pacific Southwest. PG&E awaits the issuance of the final LTIAP with a mixture of hope and anxiety, but part of the hope is that BPA will be willing to take the risk to make some significant changes in its course, with the sound expectation that a final LTIAP like the one proposed by PG&E will, on balance, provide greater benefits to each region.

Sincerely,

Stuart K. Gardner

SKG:gcw/pjd
Enclosures

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BEFORE THE
BONNEVILLE POWER ADMINISTRATION
UNITED STATES DEPARTMENT OF ENERGY

In the Matter of:	)	DECLARATION OF ROY M. KUGA
	)	CONCERNING THE ECONOMIC
Adoption of Long-Term	)	ANALYSIS OF LTIAP PREPARED
Intertie Access Policy	)	BY DECISION FOCUS
(LTIAP)	)	INCORPORATED
	)	

Roy M. Kuga, declarant, states:

1. I am employed by Pacific Gas and Electric Company, San Francisco, California ("PG&E") as Supervising Engineer, Wholesale Market Analysis, in the Bulk Power Contracts Department. I am responsible for providing and supervising the provision of both economic analyses of wholesale electric power contracts and wholesale electric power market plans.

2. I was responsible on behalf of PG&E for providing direction to Decision Focus Incorporated, Los Altos, California ("DFI") in the preparation of the study entitled "An Economic Analysis of Bonneville Power Administration's Intertie Access Policy," dated February 1988 ("Study"), which is appended hereto. This Study was prepared by DFI solely for PG&E.

3. In the course of providing direction to DFI in the preparation of the Study, other employees of PG&E acting at my direction furnished DFI with data, concerning PG&E and used to conduct the Study, which was taken from records maintained by PG&E in the ordinary course of

business. All data requested by or furnished to DFI concerning PG&E was taken from such records.

4. In the course of providing direction to DFI in the preparation of the Study, other employees of PG&E acting at my direction furnished DFI with the following data from the following sources other than records of PG&E:

a. Bonneville Power Administration Power Situation Statements, issued monthly, used for Pacific Northwest coordinated system load, and operating cost data concerning production from the Centralia plant.

b. Letter of April 1, 1987 from James J. Jura to the Honorable George Miller, Attachment 1 to Response 1, Attachment to Response 3 and Attachment to Response 7, used to determine in part Pacific Northwest spill conditions.

c. Exhibit 7B in FERC Docket Nos. EF81-2011-003 and EF82-2011-003, used to determine in part Pacific Northwest spill conditions.

Executed this 18th day of February, 1988, at San Francisco, California.

I declare under the penalty of perjury that the foregoing is true and correct.

Roy M. Kuga

APPENDIX

To Comments Regarding Revisd
Draft Long-Term Intertie
Access Policy

AN ECONOMIC ANALYSIS OF BONNEVILLE POWER ADMINISTRATION'S INTERTIE ACCESS POLICY

Prepared by:

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February 1988

OVERVIEW

The high voltage interconnections between the Pacific Northwest (PNW) and California allow significant energy trade between the two regions. Often more beneficial trade is possible than the interconnections can physically accommodate and thus the Intertie becomes a scarce resource. In 1984 the Bonneville Power Administration (BPA) instituted an Intertie Access Policy (IAP) and fundamentally changed the manner in which access was granted.

This report analyzes the impacts of the BPA's Intertie access policy from (1) an economic theory perspective, (2) actual outcomes since its implementation and (3) likely impacts into the future. The report presents strong evidence that the IAP has been and LTIAP will be anti-competitive and that this attribute will destroy Intertie benefits. Lost benefits represent the potential to create future revenue for BPA. Thus BPA LTIAP is shortsighted; for while IAP has yielded the PNW higher revenues in the near-term, the LTIAP runs the substantial risk of lower long-term revenues.

The loss of Intertie benefits and long-term BPA revenue can be avoided.

First, California needs long-term assurance that non-firm surplus, when available, will yield meaningful benefits compared to its short-term alternative. More competitive short-term access will achieve this outcome; this report describes an alternative.

Second, the LTIAP policy must allow longer-term transactions to occur when they yield significantly greater benefits than the short-term transactions they displace. This report describes an alternative which achieves this objective.

The remainder of this report is organized as follows. The main body of the report is short. It covers three basic areas. First, theoretical economic foundations are provided to help communicate the issues of total benefits, who gets them and what rational reactions occur given certain sharing of the benefits. The first section also contains the results of the statistical analysis showing that the IAP has resulted in a significant price

change and share of the benefits. Second, the impact of non-firm access policies are discussed. Two more competitive policies are presented and their impacts are described. It also points out that BPA's analysis to date ignores impacts of demand elasticity on the non-firm California market. Finally, the last section on firm access describes how the proposed LTIAP blocks significant benefits and therefore revenue and/or savings potential. An alternative approach which avoids these undesirable outcomes is proposed. The main body of the report is followed by a series of detailed appendices.

ECONOMIC FOUNDATIONS

The BPA Long Term Intertie Access Policy (LTIAP) can be shown to represent the outright exercise of market power similar in its effects to that of classical pure monopoly.

As Section 1 of Appendix A will discuss in detail, market power has two primary effects on market outcomes. These are called efficiency and equity effects. The former can be thought of as effects on the overall amount of benefits generated for society by the existence of a market. The latter can be thought of in terms of how the benefits are divided among buyers and sellers. The premise is that if the efficiency can be increased, then even without a change in the way the market benefits are being split, there are ways to make all parties better off. It will be shown that market power can create disturbances to both the efficiency and equity in a market.

Economic analysis cannot determine what exactly is equitable, but it provides a construct with which one can analyze and predict the effects of different market structures on the distribution of benefits. Thus Appendix A explains how the LTIAP (and the IAP) substantially affect the sharing of the Intertie market benefits between the Northwest and Southwest utilities. It also indicates the ways in which these access policies may affect efficiencies in the Intertie market.

It is emphasized in the analysis that the mere presence of market power is not a sufficient cause for criticizing BPA's policies. BPA must also exercise that power. If that power is being exercised, then there will be very distinctive signs in the market outcomes, all of which are predicted by the theory presented in Appendix A. The analysis explains that the imposition of the IAP and LTIAP represents the exercise of market power, not only by the BPA but by the Pacific Northwest (PNW) utilities as a whole. The LTIAP creates the equivalent of a tightly-knit cartel without any overt collusion on the part of the group of utilities that make up the PNW. Indicators of the exercise of market power are changes in the price levels and concomitant shifts in the sharing of total market benefits towards the producers. The historical presence of the IAP serves as a very useful basis for gathering evidence that BPA's access policies do indeed result in the exercise of market power by the Northwest as a whole. The statistical analysis proceeds by comparing market outcomes on the Intertie before and after the IAP.

A statistical analysis of monthly data provided by PG&E indicates that the IAP has added about $8/MWh to the spot price that PG&E must pay for energy from BPA on the Intertie. This value rises to approximately $10/MWh for the non-federal PNW producers' prices. It is highly significant statistically, even after controlling for the effects of a large number of other possible explanatory variables such as availability of hydro power, fuel costs, and minimum generating requirements.

The statistical analysis was carried a step further to calculate the effects of the IAP on the distribution of the total market surplus or benefits. The analysis indicates a very important and statistically significant shift in the sharing of the market benefits. Prior to the IAP, approximately 30 percent of the benefits went to the PNW sellers. After the IAP, the PNW has been taking about 70 percent of the benefits. These estimates of benefit sharing are based on the assumption that the opportunity cost of PNW economy energy can be approximated by the average variable operating cost of the Centralia and Jim Bridges power plants. This conservative assumption tends to underestimate the share of benefits accruing to the PNW.

These two shifts in market outcomes are consistent with the theoretical predictions that the IAP represents the exercise of BPA's market power. The complete explanation of the analysis and presentation of detailed results are provided in Section 5 of Appendix A.

In summary, the LTIAP is an institutional structure that would result in the exercise of market power by the PNW as a whole. Further, the exercise of this market power results in substantial shifts in the benefits of the Intertie market taken by the PNW. Prices are driven up and inefficiencies may also be significant. The theoretical basis of these statements is carefully explained in Appendix A.

SHORT-TERM ACCESS POLICIES

The Pacific Northwest has significant non-firm energy surpluses in other than dry years. Historically much of the trade volume on the Intertie resulted from these non-firm surpluses. As the report describes in the statistical analysis section, the IAP results in the PNW capturing a significant increase in the share of the benefits available from this non-firm energy.

California needs long-term assurance that it will receive a reasonable share of the benefits available from these transactions. Without such an assurance, California must avail itself of lower priced alternatives that are economically less efficient. The outcome of this rational California behavior will ultimately be lower Intertie revenues for the PNW.

To avoid this otherwise likely outcome, BPA needs to take steps to assure California that it will receive an equitable fraction of the benefits of non-firm PNW energy imports. Several changes in the proposed policy may change California's current perception and thus keep BPA from facing substantial revenue erosion. First, the LTIAP needs to be more competitive than the current IAPs. Second BPA, because of its size, must limit its price during spill to a reasonable fraction of California decremental cost.

The analysis of the surplus non-firm energy market compares the effects on California of alternative Intertie access policies. Three Intertie access policies with different rules governing Intertie access and surplus non-firm energy trade with California were analyzed. The access policies are based on the same short-term California demand and PNW regional supply curves. Thus, the same quantities of surplus non-firm energy are transacted between the two regions under each policy. We assume that no non-firm energy transactions are lost under the less competitive policies with higher prices. Appendix B contains a more detailed discussion of the methods and results.

The proposed LTIAP, in which BPA realizes, through declarations of surplus availability, two-thirds of the Intertie for its own use during spill conditions or when the Intertie is full, is least favorable for California. Since under the LTIAP the non-federal portion of the Intertie is allocated among individual producers, both federal and non-

federal producers are able to charge the maximum possible price that California is willing to pay for all transactions along the full Intertie. Since the Intertie is full about 50% of the peak period, this represents a significant price effect for California. Federal and non-federal total revenues are largest under the LTIAP. Non-federal producers sell a large portion of their surplus energy to California because it is more profitable at the maximum willingness to pay prices to sell to California than to displace regional coal-fired generation. BPA sells large quantities of non-firm energy to California and displaces a large portion of regional thermal generation.

Under the BPA-first access policy, BPA reserves a portion of the Intertie, assumed to be two-thirds of the capacity available for non-firm sales. Non-federal producers are not individually allocated Intertie access, but instead compete for sales to California. As a result of the competition, California receives a more equitable share of the net benefits from trade with non-federal producers. BPA, however, can still extract virtually all of the benefits from trade whenever the Intertie is full. Non-federal producers find it less attractive to sell surplus non-firm energy to California when prices are competitive. They in turn displace more regional thermal generation. BPA sells less market expansion energy when non-federal producers displace more regional thermal, but relatively more in Intertie sales to California. California's costs are reduced under the BPA-first policy because non-federal producers sell energy at a split savings price, but California's savings are partially offset by the larger amount of non-firm energy transacted with BPA.

Finally, the third policy assumes that in addition to a competitive non-federal market, BPA establishes a price cap on transactions with California that occur during Condition 1. BPA shares the benefits with California by establishing a split savings price cap rather than charging the maximum price that California is willing to pay. The effect on California's costs of a competitive market for non-firm energy is substantial. California receives $65 million per year in savings under this fully competitive when not spilling policy. BPA Intertie revenues decrease by about $30 million annually. Total BPA revenues fall by about $74 million annually. This further loss of BPA revenues occurs because BPA realizes fewer market expansion sales as other PNW suppliers lose their cartel position.

These results are based on BPA supplied data, but BPA assumes that California will not react to the LTIAP. As we have shown above, California has substantial economic reason and means to react. When California reaction is incorporated into the analysis of Intertie access policies, BPA revenue loss relative to the LTIAP will be substantially reduced.

The following short-term transmission access policy may allow BPA to achieve long-term, sustainable revenues from California with only a modest impact on competitiveness of the market.

Competitive open access during all non-spill conditions.

During spill conditions the Intertie is allocated to its capacity based on its declaration on a take or pay basis.

In addition, BPA commits itself to a price cap equal to 50% of California's swing fuel costs.

The economic analysis[1] by BPA of LTIAP on non-firm sales is flawed in several important respects. Most important, BPA does not consider how California will respond to different Intertie access policies. The planning value to California of non-firm PNW energy is based on California's perception of the sharing of benefits between California and the PNW.

Logically, if PNW obtains almost all of the benefits of non-firm surplus, California will adjust its supply position relative to the situation where California sees more benefits from PNW non-firm surplus.

California's options to adjust its supply in response to PNW anti competitive access policies are wide ranging. In the longer term these include the obvious generating resource mix decisions. Several possibilities also exist in the shorter term. All of these choices have a common element. Inefficiencies may be introduced, but they are more than compensated for by reduced PNW revenue. Thus California electricity consumers are better off. Appendix B describes these options in more detail along with estimates of how mueh California could reduce the prices it pays for PNW non-firm energy as a result of implementing responses to PNW's anti competitive policies.

BPA analysis of the IAP does not consider how California's short-term demand curves will likely change with an increasing share of the benefits of non-firm energy trade accruing to the PNW. As a result, BPA analysis of the revenue impacts of different Intertie access policies overestimates California revenue because California has the ability to change its short-term demand curves with a resulting significant revenue erosion to BPA.

1. "Analysis of Condition 1 Intertie Allocation Alternatives," Bonneville Power Administration; "Assured Delivery Contracts--Assumptions and Methodology--800 MW Capacity," January 1988, Bonneville Power Administration; "Overview of and Preliminary Conclusions on Third AC Participation Study," Pacific Northwest Third AC Intertie Draft Participation Study, from Teresa Cunningham Byrnes, January 1988.

LONG-TERM ACCESS POLICIES

The LTIAP arbitrarily limits firm transactions. Firm transactions increase the total benefits available from the Intertie. Most of these more beneficial firm transactions can co-exist with transactions based on non-firm hydroelectric surpluses. Alternative firm access policies would allow Intertie benefits to increase.

Most potential long-term inter-regional transactions are prohibited by the proposed LTIAP. BPA has severe legal limits on the types of products which it can offer outside of the PNW. For the other PNW producers the proposed policy limits to two the long-term products that can be sold and allocates one of those products to specific producers on a basis which has little or no relevance to long-term production capabilities. Furthermore, the proposed LTIAP does not assure firm access to extra-regional utilities.

Allowing other types of transactions would increase efficiency and thereby increase the total benefits made possible by the Intertie. It is not possible to exhaustively enumerate these efficiency improving options. However, there is strong evidence that several plausible, beneficial firm transactions exist which the LTIAP would prohibit or effectively frustrate. The two clearest areas where this could occur are: (1) the early realization of conservation and renewable energy sources in the PNW, and (2) the seasonal diversity peaking exchanges between PNW and California.

BPA projects that, absent Intertie access restrictions, additional conservation and renewables would be realized in the PNW (Pacific Northwest Third AC Intertie Draft Participation Study, 1/1988, p.36). These are estimated to cost $25/MWh. Other sources assert that long-term firm conservation resources are available at much lower costs. NPPC 1986 Plan, Vol II, Chapter 5[2] states the availability of 700 aMW at a cost of less than $10/MWh and 900 aMW at a cost between $10/MWh and $20/MWh.

Seasonal diversity peaking exchanges can provide value to both California and the PNW. Large efficiency gains are possible from the transactions. BPA estimates the value of peaking capacity to California at approximately $50,000 per megawatt annually

2. Northwest Conservation and Electric Power Plan prepared by the Northwest Power Planning Council, 1986.

based on combustion turbines. Similar values likely exist in the PNW where, absent access to California, combustion turbine strategies appear quite attractive (source: NPPC 1986 Plan Vol II, Chapter 7). A megawatt of seasonal peaking exchange lost because of the LTIAP prohibitions results in an efficiency loss of approximately $100,000 annually. There is substantial evidence that at least of 1000 megawatts of such transactions are possible and that these would be worth $100 million annually.

The following long-term assured access policy avoids efficiency losses for firm transactions with high net benefits.

> Firm Intertie access will be available without restriction. Operational mitigation will apply during spill conditions. To the extent that a party's long-term assured Intertie transmission capacity exceeds the transmission capacity that party realizes during spill conditions, that party must purchase spot energy in the PNW to make up the difference.

With the adoption of such a policy, BPA can allow the market (including itself) to find and realize efficiencies if and where they exist. There is no need to limit total access or allocate it to the various parties. The policy also grants extraordinary California market access when unstorable PNW non-firm energy surpluses exist.

Appendix A

THEORETICAL AND STATISTICAL ANALYSIS OF THE MARKET POWER EFFECTS OF BPA'S LTIAP AND IAP

Section 1

A PRIMER ON MARKET POWER

In this section we will summarize the relevant concepts and methods from economic theory that can be employed to analyze market structures such as the LTIAP and their consequences for the economic welfare of all concerned. The reader familiar with economic theories of market structure and welfare analysis can turn to Sections 2 and 3, where these constructs are applied to the Intertie market. The reader seeking substantiation or clarification of any of the basic points herein is referred to James Henderson and Richard Quandt's *Microeconomic Theory*, (New York: McGraw-Hill Book Company, 1971).

1.1 MARKET POWER AND MARKET OUTCOMES

The terms "monopoly" and "cartel" are technical terms from economics that have come into the common usage. Most people have an idea what they mean, and that they are usually considered "bad", at least for consumers. The common usage is a mixed blessing, however, as the terms tend to be used imprecisely, sometimes degenerating to mere name calling. Before we discuss how the BPA's LTIAP may represent a monopoly or cartel, we will start with an introduction to the concept of market power and how to interpret its market consequences. This will later serve as a point of divergence for analyzing the market and welfare effects of the BPA LTIAP.

In textbook economics, all producers (whether monopolists or competitors) are assumed to choose their actions to maximize their own individual welfare rather than the welfare of society as a whole. In more colloquial terms, producers try to maximize how much "pie" they can get. This can be done by increasing the size of the whole pie and/or by increasing the size of their own slice of the pie. It is important to emphasize that this assumption of self-optimizing behavior applies to all competitive as well as monopoly producers. The distinction is solely in the fact that market power gives monopoly producers the ability to act on those goals more effectively.

If a producer's welfare is closely related to his profits, two of the market actions that he can take in seeking to maximize his individual welfare are (1) to set the asking

price for his product, and (2) to choose how much of the product to supply. These two decisions are closely tied together by the fact that the demand for the product tends to decrease as the price rises. Thus the market places constraints on the price-quantity choices that are available, and the producer must in fact choose among those consistent with the demand conditions and the market structure under which he operates.

The feasible set of producer choices depends on the amount of market power the producers possess. Two extremes exist: pure competition and pure monopoly. In pure competition, there are so many producers that the individual producer is very small relative to the total market volume. Because of this, no single producer can affect the market price through his own individual actions. For the market as a whole, demand and market price are still inversely related, but the competitive supplier is, by assumption, too small a piece of the overall market to make a discernible difference in the total volume, and hence in the price level of that market. In both the economics and common terminology, the competitive producer is a "price-taker". If he tries to raise his price above that of the market, he will lose his market share entirely because consumers will turn to the cheaper supplies of his competitors. Further, he has no incentive to cut price because he is a small enough player in the market that he can sell all he desires at the going market price. Thus if a competitive producer equates his own welfare with profits, his only recourse is to produce as much as is profitable for him at the going price. "Price-taking" behavior is therefore consistent with conditions of pure competition.

Pure monopoly exists where there is only a single supplier of a product in a given market. Clearly, since the monopolist's output is the total market quantity, the monopolist can single-handedly determine where on the consumer demand curve the market will equilibrate. He cannot set the market price independent of the market quantity, but he can choose which of the feasible market price-consumer demand combination is optimal for him.

It can be shown that the assumption of maximization of individual profits will lead the monopolist to restrict his level of output to a level lower than would occur in a competitive market facing the same demand conditions. In doing this, he also ensures a price that is higher than would be the case under competition. The end result is lower benefits for the consumer because consumers enjoy less product and pay a higher unit price, and higher benefits (i.e., profits) for the producer. The monopolist thus takes a larger portion of the pie than a competitive producer can, while consumers are left with a smaller portion. This is an issue of equity or distributional justice.

Moreover, it can be shown that monopolistic behavior also reduces the overall size of the pie that is being divided. In other words, the sum of all consumer and producer benefits is lower under monopoly than under competition: the consumers' losses are even greater than the producers' gains. This is a classic case of what is called "economic inefficiency", and is a basis for the presumption that monopoly is "bad", even aside from any issues of equity or distributional justice.

In summary, the monopolist takes advantage of the fact that he is large enough to affect the demand side of the market. A competitive supplier would also take this advantage, but cannot. Evidence of this is the fact that competing producers sometimes try to form "cartels." A cartel is a group of suppliers that conspire or "collude" to restrict their collective output to the same level that a monopolist would. The incentive for this behavior is that the profits that a monopolist takes are higher than those that the individuals can collectively take by continuing to independently maximize their individual interests. By combining as a cartel, the competitors are able to take a larger share of the benefits from their customers.

There are a variety of market structures that are between the two extremes of pure competition and pure monopoly discussed above. Partial monopoly power can exist when a supplier or cartel of suppliers is not the sole source of supply, but is a large enough part of the market that its actions can affect the level of demand and the demand price. This situation results in various forms of behavior that are somewhere between those of pure competition and pure monopoly.

1.2 EVALUATION OF MARKET OUTCOMES: EFFICIENCY AND EQUITY

Economists normally evaluate market structures in terms of two key attributes: efficiency and equity. We have touched on these above; now we will be more precise.

"Efficiency" is another economic term that is often misunderstood in the common usage. Economic efficiency is not the same thing as physical or engineering efficiency. A market outcome is said to be economically efficient if there is no other feasible market outcome that can make one or more market agents (buyers and sellers) better off without making at least one other market agent worse off.

Figure 1-1 provides an illustration of this concept. Any point in the figure shows the mix of benefits to each of two market participants (A and B) from alternative market outcomes. Technical limitations constrain the set of possible market outcomes. For instance, even if A took no benefits at all, B would still be technically limited in how

high his benefits could be. The shaded portion of the figure is the region assumed to be technically feasible to achieve.

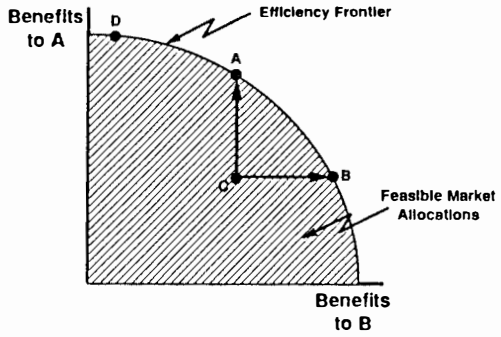


Figure 1-1. Efficiency and Equity in Market Outcomes

Efficient allocations are those on the outer edge, or "frontier" of the feasible region, like points a, b and d. These points reflect "pies" that have been sliced between A and B in different proportions. They are efficient pies because in each case there are no other technically feasible pies that will not make at least one of the participants worse off. Point c by contrast is an inefficient point. It is equivalent to a smaller pie compared with a, b or d. Clearly, if the size of the pie can be increased, it could be split in a way that would make both A and B happier. Theoretically, economic efficiency is desirable because it at least makes possible a reallocation that would make everyone better off than under an inefficient market allocation. For example, any point on the frontier between a and b would make both participants A and B better off than at point c.

The concept of economic efficiency makes no tradeoffs or value judgments about the relative welfare of the different participants. For example, points a and b in the figure are both considered efficient. Neither can be judged "more" efficient than the other. In fact, point d is also considered efficient even though it is associated with an allocation that makes B much worse off than at a or b. Social preferences are distinct from the concept of economic efficiency.

The term "equity" addresses social preferences concerning how the market benefits are split. For example, society's preference for point a over point b in the figure is a matter of equity. Equity is a value judgment. The concept of equity also can be discussed in terms of Figure 1-1. Allocation c is inefficient while d is efficient, but there is no reason to presume that we should prefer d to c. In fact, given a value function favoring approximately equal splits of benefits, it is possible we would prefer c to d. That is, the efficiency loss in c might be deemed preferable to the equity implications of moving to d. However, there is some point on the efficiency frontier (any point between a and b) that would be preferred by both parties to the inefficient allocation at c.

There is nothing in economic theory that can definitively determine which sharing of benefits amongst market participants is more equitable or fair, or even who should decide. However, economic reasoning can be useful for demonstrating how different market power situations result in different allocations of the market benefits to different market participants. If a social value function can be formulated from outside the realm of economics, we can go on to evaluate the social implications of the different allocations.

It is generally "cleaner" to separate analysis of equity and efficiency of market structures, and we will do so in the rest of this document.

1.3 A MEASURE OF BENEFITS

The analysis up to here has used the general concept of "benefits." We need to define these benefits more explicitly before we continue. A benefits measure that is both practical and based on rigorous economic theory is social surplus, better known by its constituent parts, consumers' and producers' surplus. Only the briefest sketch of the concept is presented here; suffice it to say that social surplus is perhaps the most widely used and accepted benefits measure in applied welfare economics.[1]

In simple terms, consumers' surplus is a measure of the value of a commodity to a consumer over and above the amount actually paid for it. Its measurement is dependent on the idea that the consumer demand curve represents the value of service or "willingness to pay" for each potential unit of purchase. Producers' surplus, similarly, is

1. Among the hundreds articles and books concerned with measures of economic welfare, one good one that comes to mind concerning social surplus is "Three Basic Postulates for Applied Welfare Economics" by A. C. Harberger, *Journal of Economic Literature* (1971), pp. 797.

the value to the producer or seller over and above the costs of production plus a "normal" return to equity. This is usually measured as "profits" which are in economic terminology only those returns in excess of the "normal" return to equity, or "cost of capital." For a regulated utility, a good estimate of the "normal" return could be the regulated allowed rate of return on equity.

The social surplus due to a specific market is simply defined as the sum of consumers' plus producers' surplus. A market outcome that maximizes social surplus is economically efficient. The relative amounts of consumers' and producers' surplus represent equity issues.

An important and useful theoretical result is that a competitive market outcome maximizes the sum of consumers' plus producers' surplus and hence is always efficient.[2] In view of this fact, we can use the terms "efficient" and "competitive" virtually interchangeably (so long as we keep the precise definitions of those terms in mind).

In Figure 1-2 we present a graph of consumers' and producers' surplus under a competitive market equilibrium. Different consumers place different values on a given product, and may thus differ in their willingness to pay for the product. The demand curve can be thought of as an ordering from the highest to lowest willingness to pay amongst consumers. The demand curve indicates that the higher the price set in the market, the lower the total sales will be, for higher prices eliminate increasingly more consumers who have lower willingness to pay.

The supply side of this market faces cost conditions consistent with the marginal cost curve of the figure, where the marginal or incremental cost of each unit supplied costs increasingly more to produce. These cost conditions are consistent with the supply conditions for electric power. The market price in this case will be determined by where the demand curve intersects the marginal cost curve. This is point C in the figure, where the market quantity is Q and the price is P.

All consumers in a competitive market pay the same market price, P. Some of the consumers, however, would have been willing to pay more, as shown by the fact that points on the demand curve to the left of the point C are higher than the market price level P. They in effect take advantage of the competitive conditions to get the commodity at a price less than they are actually willing to pay. The net benefits gained by the consumers in the market are the amounts they would have been willing to pay in

2. In fact, in practice, some applied market equilibrium models are designed to find the competitive market equilibrium by maximizing social surplus.

excess of the amount they actually do have to pay. That is, for a consumer at a particular point on the demand curve, the individual's consumer surplus or his "net benefit" per unit of sales is the difference of the height of the demand curve and the market price, P. The benefit to all consumers in the market is then the shaded area CS, which is the sum of the net benefit per unit of sales weighted by the sales at each point. This is the overall level of consumers' surplus generated by this market.

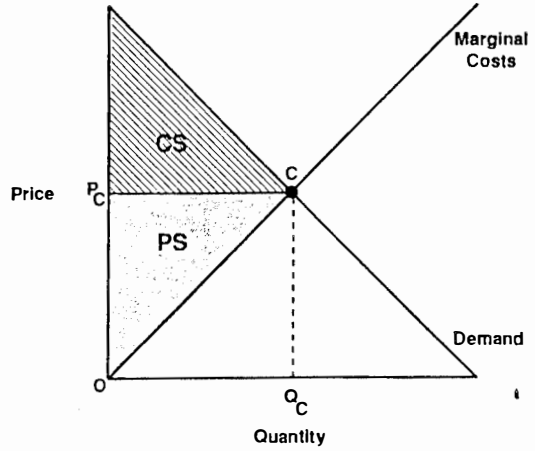


Figure 1-2. Competitive Market Outcome

Similarly, the producers' surplus, or share of the net benefits, is shown by the difference between the actual costs of production and the price obtained: the slashed area PS in Figure 1-2. The total benefits of this market to all participants, or social surplus, is simply the sum of these two measures, or the whole area PS plus CS.

1.4 EQUITY AND EFFICIENCY IMPLICATIONS OF MARKET POWER

The market outcomes under the two extremes of market power can now be interpreted in terms of equity and efficiency. In any viable market, both the producers and consumers as a whole obtain some share of the total social surplus. If one side did not, then no market would exist. Both parties must have incentives to enter into the transactions in the form of benefits, but the actual sharing of benefits will not

necessarily be equal. Regardless of the degree of market power, the relative shares will depend on the relative producer costs and consumer values of the commodity being sold.

The monopolistic market outcome is illustrated in Figure 1-3. It can be contrasted to the competitive market outcome of Figure 1-2. As we discussed, economic theory indicates that the monopoly outcome would involve a higher price and lower quantity, given the same costs of production and demand conditions. In this case the monopoly outcome would be at point M.[3] Now it can clearly be seen that the total benefits of the market are reduced by an amount equal to the black triangle. This is the inefficiency implication of monopoly; the amount by which the total pie has been reduced. Further, of the remaining benefits, the monopolist takes a larger portion. This is seen by noting that the area PS of producer benefits is larger in Figure 1-3 than in Figure 1-2. This difference is the equity or distributional implication of monopoly power.

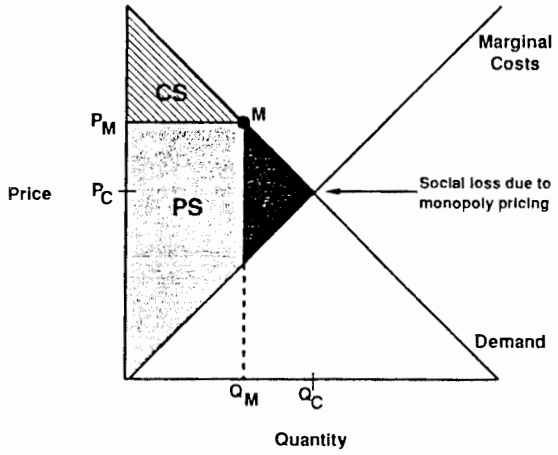


Figure 1-3. Monopolist Market Outcome

3. The monopolist's profit maximizing supply level is the level at which marginal revenue equals marginal cost. Marginal revenue is the point halfway between the demand curve and the horizontal axis. The market price is then the point on the demand curve that is exactly twice the marginal cost curve. For a derivation, see Donald S. Watson, *Price Theory and its Uses*, 3rd edition, Houghton Mifflin Company, Boston (1972), p.349.

Monopoly and cartels are therefore "bad" because they possess and exercise a power over the market that permits them to take a larger share of the market benefits than they could under competition, and because the exercise of that power often results in smaller total benefits (the loss of which is borne entirely by the consumer side of the market).

It should be further noted that if the monopolist can make a separate transaction with each consumer, then he can charge each consumer exactly what that consumer is actually willing to pay because the consumers cannot turn to any other supplier. When this happens, the monopolist actually takes the full benefits of the market and leaves only enough residual consumer benefit to give the consumers an incentive to participate in the market. The latter situation is called price discrimination. It does not result in more inefficiency[4] but it does result in an even more inequitable distribution of the market benefits than under ordinary monopoly. Price discrimination is described here because it may be possible for utilities negotiating with each other to be able to act in a price discriminating fashion if the selling utility holds market power.

The above discussion should not be construed to mean that competition always results in a more "equitable" outcome than a monopolistic one. It is quite possible to construct a set of demand and cost conditions where the consumers attain more than half of the market benefits. In that case a move towards monopoly would imply a more even split of the benefits. In fact, it should be reiterated that the very concept of "equitable" does not have a basis in economic theory. There are no objective or scientific rules for defining an equitable sharing of benefits. The theoretical result that a competitive outcome is more efficient does not therefore imply that all parties will be better off, nor more fairly treated.

Thus, the end result of a full or partial monopoly or cartel compared to a purely competitive market structure is qualitatively the same: higher market prices, higher benefits to the monopolist or cartel members, and lower benefits for consumers (due both to less product and higher prices). Significantly, if the dollar benefits to the producers and consumers are added together, they will typically be lower than under competition. This is a net social loss from the presence of market power.

4. It can in fact be shown that if the monopolist is able to price discriminate then the inefficiencies of the monopoly may be reduced or even removed.

1.5 INTERPRETATION OF THE LTIAP IN TERMS OF MARKET POWER CONCEPTS

Section 2 of this appendix will apply the concepts introduced above to the LTIAP and IAP. We will provide a brief preview of that analysis here. The LTIAP cannot be directly construed as monopolistic behavior because its major effect is not to restrict the overall level of supply of the product, interregional power. Much of the time that level is determined by the presence of a physical constraint: the physical capacity of the Intertie. Further, there is competition in the form of the California generators. However, most of the California utilities are required by regulatory review to purchase the cheapest available energy, and they are thus forced to buy energy from the Intertie. During those times, the PNW utilities are in a position where they face no other competition in the California market as long as they keep their price below that of the marginal power source in California. In other words, the Intertie market becomes one where the PNW as a group would be monopolists with respect to a group of consumers (the California utilities) whose willingness to pay is equal to their marginal cost of the alternative source of power.

If the PNW can act together, they will have pure monopoly power during those times. If they exercise that monopoly power, then they will not set prices in an efficient manner. There will be decreases in the total social gains from the Intertie market, and the benefits that remain will be divided differently than would be the case under competition. Further, if the PNW utilities are able to negotiate every contract under terms specific to the purchasing California utility, then the PNW will be able to take almost all of the benefits through their actions as a price-discriminating monopoly-cartel.

One might argue that public utility regulations make it so that the PNW cannot act as a group to attain an actual monopoly-cartel situation. However, economic theory has shown that clear evidence of cartel behavior is the splitting of the market among the producers into pre-assigned shares.[5] The LTIAP does exactly this for 80 percent of the Intertie market. The other utilities in the PNW do not have to show any intent or actual coordination of their actions to become part of the cartel. The BPA, through its ability to unilaterally fix the shares of eighty percent of the market, has created an almost pure monopoly-cartel. The twenty percent of the market not under BPA control is not sufficiently large to maintain competitive conditions in periods of high Intertie demand (i.e., when the physical capacity of the Intertie is less than the demand).

5. See Stigler, George, "A Theory of Oligopoly," *Journal of Political Economy*, February 1964, pp. 44-61.

Section 2 will elaborate on how the fixing of market shares leads to a monopoly market outcome. Briefly, by fixing the market shares of the suppliers (and restricting the availability of some kinds of contracts) the producers each have a captive market at any price up to the California marginal cost. This allows each PNW utility to raise its price of spot energy without losing its market to a competitor. As described above, the ability to set one's price is exactly the condition that allows monopolies to act differently from competitive producers. The net result of the LTIAP therefore is just like that of monopoly, unless there is some regulatory constraint on the exercise of that price setting power. The LTIAP will increase the benefits of the sellers (the PNW), while decreasing benefits to the buyers (California).

1.6 SUMMARY AND OVERVIEW OF THE REST OF THE APPENDIX

This primer has now identified how the LTIAP poses the social problems of inefficiency and a change in the equity of the Intertie market. Although economic analysis does not provide ways to evaluate the equity issue, it does indicate that the LTIAP could substantially reallocate the total market benefits to the PNW.

In the case of the Intertie, it seems a strong case can be made that at least a general principle of equity can be discerned from several sources, including the intent of Congress, the role of a federal agency and usual electric power industry practice. The principle is simply that both PNW and California participants ought to share about equally in the benefits of the Intertie (on average, over time). The intent of Congress in originally approving plans for building the Intertie are well documented to this effect elsewhere[6] and need not be repeated here. Congress approved the distribution of ownership and control of the Intertie in California, recognizing that these entities do not have common carrier responsibilities.[7] Reinforcing the principle is the fact that as a federal agency, BPA, absent specific instructions that have not been promulgated, is bound to serve impartially the interests of all U.S. parties involved, not to give special preference to one special region. And, finally, reinforcing the principle further, it is the usual electric power industry practice that the benefits from short-term interutility transactions are shared approximately equally between the parties.

6. House of Representatives No. 1822, 88th Congress, 2nd session, reprinted in 1964 U.S. Code, Cong. & Adm. News, pp. 3388, 3389, and 3392.

7. ibid, pp. 3388, 3390-5.

Before beginning to analyze the market effects of the IAP and LTIAP in greater depth, we wish to point out the distinction between the existence and exercise of market power. The existence of market power is often inherent in a market structure itself. If a market participant or colluding group of participants is large enough or otherwise powerful enough to purposely affect the selling price of the product, we would say that it possesses market power. However, it is possible to possess market power without exercising it. For example, the combination of all OPEC members is clearly a large enough part of the world oil market to strongly affect the price of oil by a cooperative policy of withholding production. In recent years, however, they have been unable to cooperate effectively enough to exercise a significant portion of the market power they inherently possess. In another vein, the theory justifying establishment of regulated utilities is that there are gains to be had from having only one supplier of a service in a given market, but those gains can be maximized (and distributed more equitably in the view of most observers) only if the monopoly utility is regulated in such a way as to prevent it from exercising the full monopoly powers inherent in its dominant position.

In this paper we are concerned with demonstrating the exercise of market power, not simply its existence. Simply citing the ownership shares in the Intertie, for example, tells us nothing about exercise of market power. We must look further into how the owners' policies and behavior affect market prices and the level and distribution of benefits to the parties involved. To examine the evidence for exercise of market power, the usual procedure is to look at prices (in relation to the prices expected under competitive conditions) and the level and distribution of benefits to the parties involved.

In the following section we present both a structural analysis and an empirical analysis. The structural analysis shows qualitatively how the Intertie short term market under the LTIAP and IAP could lead to inefficiency and a distribution of benefits favoring the PNW. The empirical analysis backs up the conceptual framework on short term market effects with statistical evidence from historical market prices and quantities. Section 3 then provides a discussion of the effects of the LTIAP on the firm energy market.

Section 2

ANALYSIS OF THE BPA CAPACITY ALLOCATION SCHEME FOR SHORT-TERM ENERGY SALES

In this section we will analyze BPA's proposed policies governing spot energy sales over the Intertie using the concepts introduced in Section 1. We will examine the effects on prices, costs and the distribution of Intertie benefits. Based on the principles of equity and efficiency set forth in the previous section, we will show that the proposed policies represent an exercise of market power by the BPA. Central topics include the formula allocation of market shares, the exclusionary rules governing extraregional and Canadian access and the "use-your-own-first" rule.

The first three parts of the section present a theoretical analysis; the last part presents empirical evidence. In the theoretical sections we begin by discussing how certain features of the LTIAP represent an exercise of market power very much like a classic cartel, with the same effects on both market efficiency and the distribution of benefits. We then go on to more specific discussions, first of how the LTIAP redistributes Intertie benefits to the PNW at the expense of California, and second how it causes inefficency in the interregional short term energy markets. In the empirical section, we use historical data provided by PG&E to analyze the causative factors in PG&E's Intertie spot prices and the changes in the sharing of total market surplus over time. It is shown that the IAP has clearly driven up spot prices and reduced the share of benefits that PG&E obtains from the market.

2.1 THE EXERCISE OF MARKET POWER

Cartel Control Mechanisms

An effective cartel exercises market power via two mechanisms: it restricts the overall level of output and it establishes market shares for each of its members. The latter mechanism, introduced briefly in Section 1, is necessary to obtain the full benefits of the cartel's intrinsic market power, and not only for the obvious need to keep total output from exceeding the agreed upon level. For even if the overall cartel output were maintained at the agreed level (e.g., by a residual supplier like Saudi Arabia in the case

of OPEC), if the individual members were allowed to compete for their share of that agreed total supply, they could compete away a portion of the potential cartel profits.

This idea is illustrated in Figure 2-1. It shows the simplest kind of supply and demand situation. Marginal costs of production for all suppliers are assumed constant at the level C. Without a cartel, the competitive equilibrium would occur at quantity Q_1 with price equal to marginal cost, C. (It is simply the point where the demand curve intersects the marginal cost curve.) Now suppose the suppliers get together in a cartel, agreeing to limit production to the level Q_2. At this level of output the demand price (i.e., value of service) would be P_d, substantially above the cost of production. With the transaction price at the level P_d, there is an economic "rent" equal to this difference in price and cost, (P_d-C). "Rent" is an economic term for profit in excess of the normal cost of capital. It arises in a market economy due to the scarcity of some product or factor of production, whether a contrived scarcity, as in the case of a cartel, or a physical scarcity, such as land or a depletable resource.

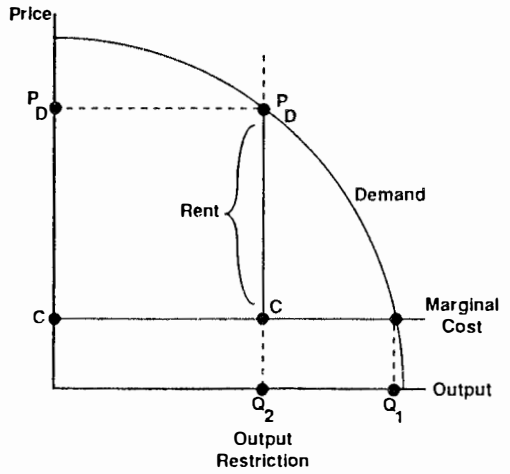


Figure 2-1. Effect of Output Restrictions by a Cartel

But can the cartel be assured of earning this rent, even if it succeeds in limiting production to the level Q_2? All we know for sure is that the transactions price will fall somewhere between the value of service, P_d, and the cost of production, C. If it did not,

one of the parties would obtain no market benefits and would refuse to participate in the market. In the example shown, the sum of the production capacities of the cartel's several suppliers is well above the agreed production limit, Q_2. If there is no commonly accepted set of rules governing how the cartel members will share the Q_2 sales, they could be expected to compete on the basis of price. Any price between P_d and C would earn a supplier more than a competitive return, so there is a good deal of room to negotiate. It is very difficult to hold a cartel together under these conditions, for the last suppliers to succeed in making deals would have to accept smaller market shares than they desire if the cartel is to avoid violating its overall output limit.

This is the reason many cartels fall apart (or never succeed in getting started). There is no easy way to allocate and police market shares. A big reason that OPEC has had a measure of success is that its largest supplier, Saudi Arabia, has been willing to act as the residual supplier most of the time; that is, it has been willing to make up for other members' "cheating" by restricting its own production as low as need be in order to keep total cartel production at the level desired.

Formula Allocation of Market Shares: Why the PNW is Like a Cartel

In the case of the BPA Intertie situation, BPA has eliminated this tendancy of most cartels to break apart. The overall level of output is limited by the physical capacity of the Intertie (much of the time) rather than by any fragile agreement among cartel members. There is no danger of exceeding the desired output level, as it is physically constrained! Nevertheless, the economic effect of the restriction is no different from a cartel-imposed limit, and the situation in Figure 2-1 is conceptually applicable to the Intertie spot market as well. We merely reinterpret the output restriction, Q_2, as the capacity limit of the Intertie. The demand curve becomes the alternative energy costs of the California utilities and the supply curve is an ordering of the costs of delivered spot energy from the various PNW utilities.

The additional mechanism needed by BPA to successfully exercise the full market power inherent in the Intertie capacity constraint is, as discussed in the above example, a method of assigning predetermined market shares for the various suppliers. This is quite efficiently implemented by the BPA capacity allocation formula of the LTIAP and IAP. Thus, the existence of BPA market power is the result of a physical capacity limit. But the successful exercise of market power depends on a method of preventing market share competition amongst the suppliers. However, it should be noted that BPA does not rely on the physical constraint to assure the cartel arrangement. In fact, BPA often

artificially constrains the Intertie capacity when the physical constraint is not binding. For example, BPA may declare that the market is 3000 MW at $20/MWh and force the remaining 1000 MW to go unused.

Exactly how does the formula allocation of market shares assure the PNW suppliers the ability to capture most of the economic rent accruing to the searcity of Intertie capacity? The answer is quite simple: they have nothing to gain by lowering their price offers, and little risk of loss by raising them to any level less than or equal to the buyer's alternative energy cost. Suppose a PNW supplier offers spot energy to a California buyer at some price slightly less than the buyer's alternative energy cost. If the buyer from California turns down the offer, it cannot make up for it by buying more spot energy from another PNW supplier, even though the original offerer may not be using its full allocated market share on the Intertie (due to its offer being turned down). Under the BPA rules, if one supplier does not use its full allocation, this does not free up the capacity for other suppliers to use in excess of their originally assigned shares. So the original supplier knows that the buyer can either accept its offer, or has to use its alternative energy source. The formula allocation rules actually give each supplier a total monopoly on their allocated share of the Intertie capacity.

Under some circumstances one might still expect bilateral negotiations between buyer and seller to result in a price at any point between the cost of service and the value of service. One can imagine a gaming situation where if a buyer did turn down a supplier's offer, and a portion of the Intertie capacity went unused, both sides would lose. The supplier would be worse off as well as the buyer because it might not have anyone other than the given buyer to market its excess energy to. If California cannot effectively play this "game," then the transactions prices are likely to be determined by the sellers, and therefore will be very near the buyer's willingness to pay, or alternative energy costs. Empirical evidence of this outcome is provided in the last part of this section.

2.2 EQUITY: THE BPA LTIAP AND THE DISTRIBUTION OF BENEFITS

The analysis presented in the primer of Section 1 uses supply and demand curves as a method for assessing the market benefits and how they are split. We need to make a small digression here for the sake of reality. As mentioned above, most Intertie transactions are the result of bilateral negotiations. This means that there is not a single market price at which all transactions are made as in the elementary economics paradigm. Because the LTIAP and IAP formula allocation scheme effectively establishes

a segregated market for each PNW utility, each buyer-seller transaction could be made at a different price. All we know for sure in advance is that each such transaction will occur at a price between the given buyer's value of service and seller's cost of service. Standard supply and demand curves can be misleading when describing the benefits of each transaction, because there is no reason to assume the market transactions would be matched up in the order of cost of service and value of service as shown in a simple supply-demand picture. For example, the lowest cost supplier (from the leftmost part of the supply curve) would not necessarily make a deal with the highest value buyer (also on the leftmost side of the demand curve). The transactions pairs could be arranged in any manner.

This idea is illustrated in Figure 2-2. The supply and demand curves have been discretized here to correspond to the assumed size of individual blocks of energy transacted. The arrows between supply curve "blocks" and demand curve "blocks" indicate each transaction between sellers and buyers. The dots near the top of each arrow represent the level of price assumed to be negotiated in each transaction. The heights of those dots are the prices that will be observed in this market. Notice in this example that the prices are always near the buyer's value of service.

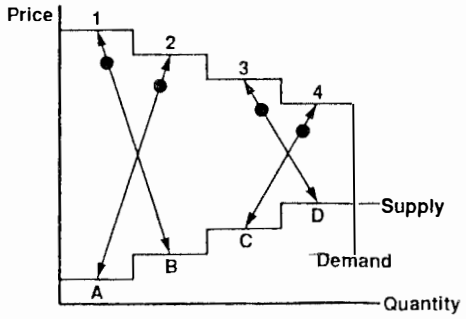


Figure 2-2. Market Outcomes with Bilateral Negotiation of Price

These considerations should be kept in mind when reading the following analysis which relies primarily on the simpler supply and demand situation for the sake of clarity. At the end of the discussion, the generalization to the above considerations is noted.

Benefits Distribution in a Restricted Market

We can now use consumers' and producers' surplus introduced in Section 1 to conceptualize and measure the economic benefits of the Intertie spot energy market. We will focus initially only on the case where demand and supply are both greater than the physical capacity of the Intertie, although the concepts can be extended to other cases. Figure 2-3 shows simplified supply and demand curves in this situation. The vertical line labeled "IC" shows the capacity of the Intertie. Total sales are assumed to be limited to less than or equal to the level IC. We will use the terms "buyers" and "California" interchangeably. Similarly, "sellers" will refer to BPA plus the non-federal PNW utilities. (Extraregional suppliers will be introduced later.)

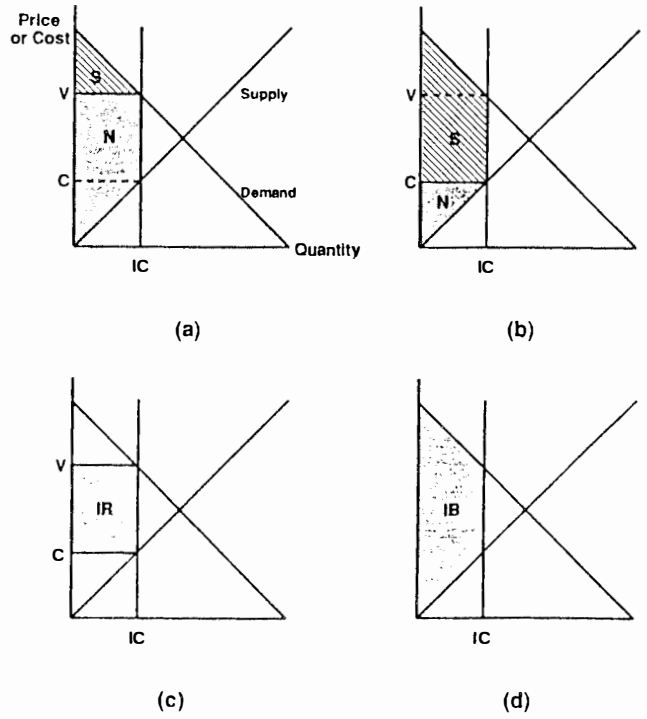


Figure 2-3. Intertie Market Under Constrained Capacity

In Figure 2-3a we expect the quantity transacted to equal the capacity of the Intertie, IC. At this quantity, the marginal value of service (i.e., the lowest alternative energy cost amongst the transactions completed) is at the level V. The marginal cost of the most expensive spot energy transacted is C. The transaction price would be expected to fall between V and C. In Figure 2-3a we assume it is at V, the top end of the range. In this case the consumers' surplus (i.e., the net benefit to California) is shown by the area marked "S"; the producers surplus (i.e., net benefit to the PNW) is shown by the larger shaded area marked "N".

In Figure 2-3b we examine what happens if the transaction price were to fall at the low end of its range, or C, the marginal cost of the most expensive seller transacting. In this case the consumers' surplus accruing to California, area S, is much larger than before, while the producers' surplus accruing to the PNW, area N, is much smaller. The total benefits are the same in each case; there is simply a shift of economic benefits between the two regions.

The amount of benefit shifting in the two cases is shown by the area IR in Figure 2-3c. It is the difference in the marginal value of service, V, and the marginal cost of service, C, multiplied by the quantity of energy transacted, IC. This is the economic rent which arises due to the scarcity of Intertie capacity (thus the label "IR" for "Intertie rent" in Figure 2-3c). The Intertie rent is a "surplus" benefit which would not normally arise in a competitive market without constraints. Different Intertie access policies can split up this rent in different ways, and it is a matter of equity, or a value judgment, as to what fraction each party is entitled to. The LTIAP and IAP lead to a benefits allocation much like that in Figure 2-3a, allocating nearly all the Intertie rent to the PNW.

The total benefits of the Intertie are actually greater than the Intertie rent. As the interregional spot market would not exist at all without the existence of the Intertie, the benefits of the Intertie are equal to the total benefits of the market, otherwise called the total social surplus (consumers' plus producers' surplus). The total social surplus in the Figure 2-3 example is illustrated by the area "IB" in Figure 2-3d (for "Intertie benefits"). It is equal to the sum of areas N and S in both Figures 2-3a and 2-3b; and, in this example, it is independent of the transactions price that ultimately results. In fact, the concept does not require that the Intertie capacity constraint be binding. If the Intertie capacity were greater than the quantity at which the supply and demand curves cross, as shown in Figure 2-4, at the price P and quantity Q, there would still be a similar level of Intertie benefits to allocate. This is shown by the social surplus area IB in Figure 2-4.

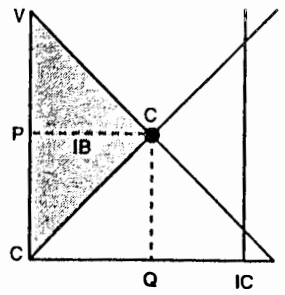


Figure 2-4. Intertie Market Without Constrained Capacity

Section 1 provided arguments that a roughly equal split of the total benefits is an appropriate principle of equity for the Intertie market. What price would cause an equal split of the overall benefits of the Intertie? The answer is quite simple: a price exactly halfway between the average value of service and average cost of service for all energy transacted. An important point is that this principle of equity refers to a sharing of total benefits. It is not sufficient to compare individual transaction prices to the value of service. The quantity sold at each price must also be considered. We return to this point in the empirical analysis at the end of this section.

As noted in the digression prior to this discussion, the actual Intertie market is not quite as simple as the example shown in Figure 2-3 and the possibility of different prices for each transaction must be accounted for. The conditions for achieving our definition of an equitable PNW-California benefits split must be restated. An equal split of Intertie benefits would occur if: (1) each transaction were made at a price 50% between that buyer's and seller's value and cost of service; or, (2) if the average of all transactions prices in the market were halfway between the average of all values of service and the average of all costs of service (with all transactions weighted by the quantity transacted). Either case would cause the total consumer surplus accruing to California to equal the total producer surplus accruing to the PNW. Empirically, either case can be detected by comparison of sales-weighted average incremental costs, values and prices. This is done for the Intertie market before and after the IAP in the last part of this section.

Benefits Distribution Under Other Market Conditions

The discussion to this point has assumed the case where both demand and supply exceed the physical capacity of the Intertie. Similar reasoning can be applied to other market conditions as well. Consider first the case when demand is less than the Intertie capacity, which in turn is still less than the surplus supply available. Such a situation can occur the LTIAP's "Condition 1". It is shown in Figure 2-5. Under these conditions, the physical constraint of the Intertie capacity has been removed and if free market forces where allowed to prevail, one would expect the market to equilibrate where supply equals demand, at the price P and quantity Q in Figure 2-5. Furthermore, the same price would apply to all transactions. A given low cost supplier would not be able to extract a price higher than P even if his customer had an alternative energy cost much higher than P, because the customer could take his business elsewhere. For example, consider Figure 2-6 where a supplier with cost C_1 is selling to a buyer with alternative energy cost V_1. If the supplier demanded a higher than market price, like P_1 in the figure, the buyer could find another supplier with costs just above the market clearing price, but still lower than supplier 1's offer price, like C_2 in the figure. Therefore supplier 1 must accept prices less than P to keep the less efficient competitors out of the market.

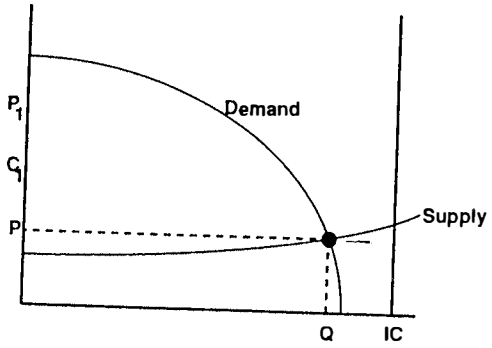


Figure 2-5. Intertie Market With Demand Less Than Capacity: Competitive Equilibrium

Under the BPA LTIAP, unfortunately, this will not happen. In this market situation, the BPA formula allocates "to the market," which means it assigns each supplier a fixed share of the total PNW demand that exists. The market is segmented into a separate little monopoly for each supplier. Since any assigned market share that is

unused by a given supplier cannot be picked up by another supplier, price competition amongst suppliers is stymied. Each supplier can still hold out for a price near the alternative energy cost of the buyer without fear of losing market share to another supplier, and conversely without hope of increasing its market share further by cutting its price. The expected transactions prices given this scheme would look like the path illustrated in Figure 2-7; in simplest terms, they would be much closer to the buyer's alternative energy cost than the supplier's production cost in every transaction made. Clearly the total market benefits are not being shared evenly here either.

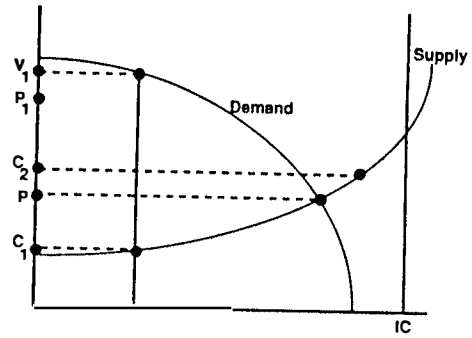


Figure 2-6. Intertie Market With Demand Less Than Capacity: LTIAP Seller

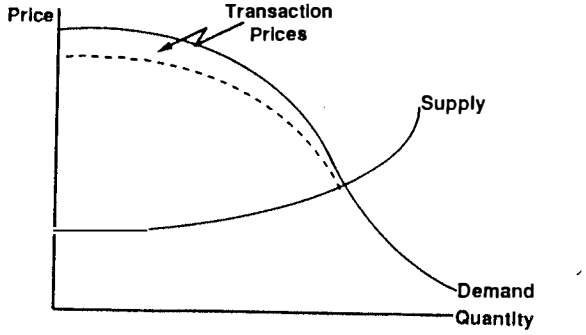


Figure 2-7. Intertie Market With Demand Less Than Capacity: LTIAP Equilibrium Price Path

Another potential market situation is when the surplus supply of the PNW utilities is less than the level of demand and less than the level of Intertie capacity. (It does not matter which of the two, demand or Intertie capacity, is larger, only that both are larger than supply.) This is the only situation when extraregional supplier utilities are allowed access to the Intertie. One might think this could introduce some price competition amongst PNW suppliers, particularly if the sum of energy available from the PNW plus extraregional utilities was greater than demand. However, once again, the BPA formula allocation scheme shields the PNW suppliers from any such competition. The scheme allows all the PNW suppliers to first declare the amount of energy they would like to sell. Only after they are guaranteed this declared level of sales are the extraregionals allowed into the market to compete for any remaining leftover demand. Again, prices remain above the competitive level.

"Use-Your-Own-First" Rule

Another anticompetitive rule in the BPA LTIAP that could decrease the flow of Intertie benefits to California utilities is the so-called "use-your-own-first" rule. This rule says that any utility that has contractual or ownership rights to other transmission capacity to California must be "fully utilizing such capacity prior to receiving any access to BPA Intertie Capacity" (emphasis ours). Unfortunately, alternative transmission lines are not connected to exactly the same parts of either the PNW or California systems. In other words, there are some energy source-destination pairs that represent feasible transactions on the BPA Intertie, but not on a given utility's alternative transmission capacity. So if a given PNW utility were not using all of its alternative transmission capacity, there still could be some transactions the utility would prefer to make with a California utility that would be prevented by this rule. Since a voluntary transaction would take place only if there are potential benefits to both buyer and seller, this rule would decrease benefits to both the potential California buyer and PNW seller. Whether the rule increases or decreases benefits to BPA is unclear.

2.3 EFFICIENCY IMPLICATIONS OF THE BPA LTIAP

Besides allocating most of the benefits of the Intertie to the PNW, the formula market share allocation scheme and the exclusionary rules included in the BPA LTIAP may cause economic inefficiency in the interregional energy markets. This is a different inefficiency than that discussed in Section 1 concerning the decrease in sales by a traditional monopolist. However, because it is an efficiency issue also, one does not need

to make any value judgments to determine that all parties could be made better off if this effect of the LTIAP were removed.

Formula Market Share Allocation

The source of inefficiency in the BPA formula market share allocation rule is easy to identify: it prevents a least cost energy allocation from the PNW suppliers to the California consumers. For a given quantity of energy transacted, economic efficiency requires that it be produced in a manner that minimizes its production cost.[8]

In a market with real competition on the supply side as well as the demand side, this would happen automatically. Relatively expensive resources would not be dispatched while lower cost resources went unused, because the owners of the lower cost resources could undercut the price of the more expensive resources. However, as we have seen, under the BPA market share allocation scheme no such price competition is possible amongst PNW suppliers.

In fact, when the PNW surplus supply is greater than the Intertie capacity and/or the California demand, the formula rule allocates market shares proportional to the amount of surplus energy available for sale by each utility, without regard to production cost. Unless all the PNW utilities have exactly the same cost structure (which they clearly do not), this ensures that some energy will be transacted with California that costs more to produce than other available lower cost surplus energy. In California there is little potential for this kind of production inefficiency for two reasons. Fossil plants vary little in conversion efficiency and mechanisms work to equalize marginal fossil production costs.

When PNW supply is less than demand, so that extraregionals are allowed some market share, production costs can still be suboptimal because of the rule that requires PNW suppliers the right to sell all they want before allowing any extraregional access. Inefficiency would be avoided if the extraregionals' production costs happened to be greater than all the participating PNW suppliers.

In either case above, the loss in total social surplus compared to an an efficient allocation would equal the difference in the actual total production cost of energy

8. To avoid cumbersome or ambiguous terminology we will define the term "production cost" to denote the cost of generation in the PNW plus transmission to California of a kWh of spot energy; i.e., it is the full cost of delivered energy, exclusive of any economic rents.

transacted and the production cost of the same quantity of energy if it had been dispatched in order of least production cost, without regard to ownership.

To illustrate these points with a simple example, consider a case where there are three PNW suppliers, each of whom can produce energy at different costs. Let the suppliers be named A, B and C, with production costs C_a, C_b, and C_c, respectively, and $C_a < C_b < C_c$. The amounts of surplus energy potentially available for sale to California by each supplier are Q_a, Q_b, and Q_c, respectively. Figure 2-8 plots the production costs against the quantities available for each supplier in order of ascending cost. Under a purely competitive (and therefore efficient) market structure, this curve would also be the industry supply curve. One could locate any potential market quantity on the horizontal axis, and draw a vertical line above it until it intersects the marginal production cost curve, as shown by the broken line above the market quantity M in Figure 2-8. The height of the curve at which the intersection takes place would show the marginal production cost in this market: the level C_b in this case. Looking to the left of this line, one could see how much of each supplier's energy was sold. In this case, supplier A would sell its full available amount, Q_a; supplier B would sell only a portion of its available amount; and the highest cost supplier, C, would not sell anything. The total production cost for providing a given market quantity is the area under the production cost curve, shown by the shaded area labeled X in the figure.

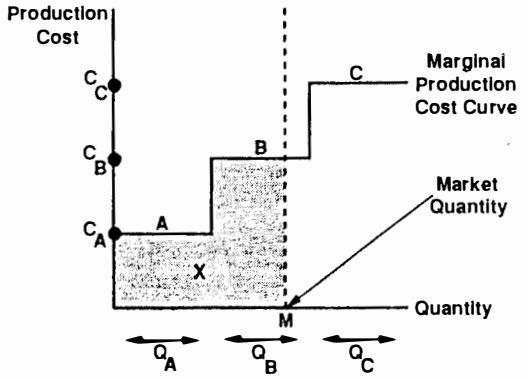


Figure 2-8. Supply Curve in Efficient Market

Since in this market, suppliers are selected in least cost order until the market demand is satisfied, the total production cost of any given market quantity would be

minimized. Any market structure or market intervention that alters this supply ordering would be inefficient in the amount by which total production costs are made to exceed the amount under the least cost scheme; that is, the amount X in this example.

Next let us examine what happens under the BPA formula allocation scheme. First consider the case where the level of surplus supply and of demand both exceed the capacity of the Intertie. In this case the quantity of energy transacted is determined by the capacity of the Intertie. We have denoted this "IC" in Figure 2-9 and have drawn a vertical line above it, just like we did for the market quantity in the previous figure. Under formula allocation, each supplier's market share would equal its fractional share of the total surplus available. For supplier A, the fraction would be Qa/(Qa+Qb+Qc), and similarly for the others. The actual amount it could sell would be this amount times the capacity of the Intertie; for supplier A this would be $(Q_a / (Q_a + Q_b + Q_c)) * IC$. Stated another way, each supplier is forced to offer less than the amount it has available by a percentage equal to the percentage by which the Intertie capacity is less than the total PNW surplus. For supplier A, this is Q_a times $IC/(Q_a + Q_b + Q_c)$.

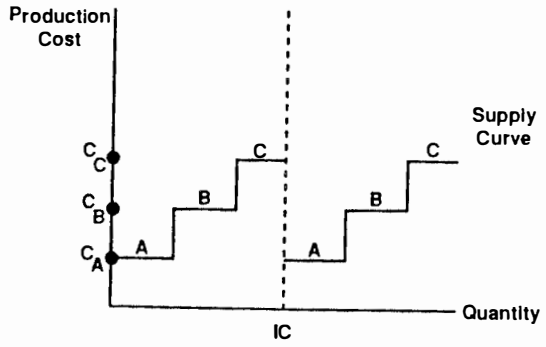


Figure 2-9. Supply Curve Under LTIAP

The effect of all this is to rearrange the PNW supply curve to look like that shown in Figure 2-9. Starting from the left, we sketch in only the fraction $IC / (Q_a + Q_b + Q_c)$ of each supplier's available surplus. We have sketched in the remaining unmarketed surplus of each supplier to the right of the Intertie capacity line for completeness, but this part of the curve is of little consequence since it is, by construction, the portion of the surplus not transacted.

In Figure 2-10 we have combined the formula allocation supply curve and the efficient (least cost) supply curve on the same graph. Remembering that the total market production cost is the area under the production cost curve up to the market quantity, it is easy to see that the difference in the costs of supplying the market quantity IC with the two supply curves is the area between them, shown by the shaded area EL in the figure. EL is the magnitude of the efficiency loss due to formula allocation compared to a competitive market structure.

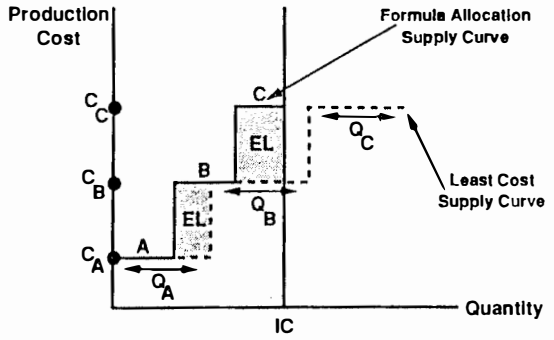


Figure 2-10. Efficiency Loss from Formula Allocation

In the case where the total market demand is less than the Intertie capacity, but the surplus supply is still greater than demand, exactly the same analysis applies. The market demand level replaces the Intertie capacity in the market share allocation formula and likewise in the figures for our sample case. Each supplier is required to offer less than the amount it has available by a percentage equal to the percentage by which the market demand is less than the total PNW surplus available. For supplier A, this is Q_a times MD / (Q_a + Q_b + Q_c), where MD equals total market demand. The PNW supply curve is now rearranged much like Figure 2-9, except that the Intertie capacity line "IC" would now be replaced by a line labeled "MD" for market demand. Similarly, the efficiency loss would look just like that pictured in Figure 2-10, except "IC" would be relabeled "MD."

While the case above is perhaps obvious, a more subtle point is that BPA's proposal to allocate to market instead of to the Intertie capacity under these conditions (when market demand is less than the Intertie capacity) has made matters even worse from an

efficiency point of view than if they had just allowed the same allocation-to-Intertie capacity formula to apply under all conditions. Figure 2-11 illustrates this point. It shows the Intertie capacity IC in the same place as in Figure 2-10, only now market demand is assumed to be lower, shown by the line labeled MD. If market shares were still allocated to the Intertie capacity, we would have the same supply curve as in the previous example. This is shown by the dotted supply curve in Figure 2-11. Since in this case, the sum of the permitted sales quantities would be greater than demand, there would be some room for competition. One might even expect a least cost ordering of suppliers within the limitation of the total supply permitted by the formula. As shown in the figure, the demand curve intersects the dotted supply curve at the production cost level C_b, and implies that the lower cost suppliers, A and B, would capture all of the market. When shares are allocated to the market, however, the sum of permitted sales is not allowed to exceed demand. The new supply curve looks like the solid curve in the figure. All suppliers get a pro-rata share of the market regardless of cost. The additional efficiency loss compared to allocating to the Intertie is shown by the shaded area, again labeled "EL."

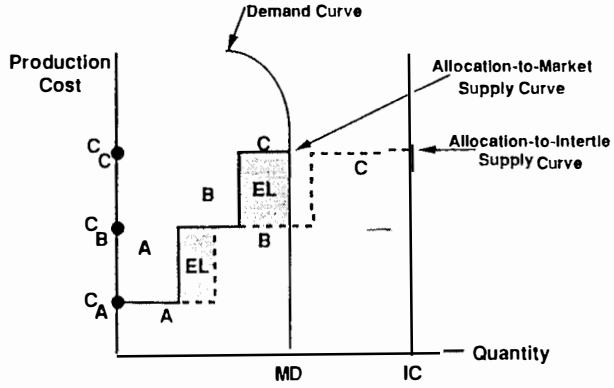


Figure 2-11. Efficiency Loss from Allocation to Market Instead of to Intertie

Still another market condition is when the surplus supply is less than both demand and the Intertie capacity. This is the only case when extraregional utilities are allowed any access to the Intertie, and then only after all PNW suppliers are assured of selling all

they want. As explained above, this last restriction leads to inefficiency unless none of the extraregionals denied access have production costs less than any of the Northwest suppliers. (In fact this simple observation applies to the market conditions when extraregionals are totally excluded from the market as well.)

Figure 2-12 illustrates this idea. We assume for this case that the Intertie capacity is less than demand, and that two extraregionals, termed suppliers D and E, are given some access to the market because PNW supply is less than the Intertie capacity. Further, assume that supplier D's production cost is in between A's and B's, and that E's is between B's and C's. Under the BPA rules, we construct the supply curve by first lining up the full amount of available supplies from the PNW suppliers, and only then consider the possibility of adding in extraregional supplies. We have shown this in the figure by arranging D and E's blocks of available supplies after A, B, and C's in the supply curve.

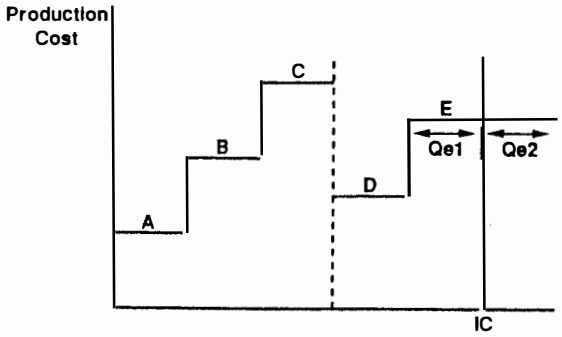


Figure 2-12. Supply Curve with Limited Extraregional Access

The supplies transacted will be all those to the left of the Intertie capacity line, IC. Suppliers A, B, C and D sell their full available surpluses, while supplier E can sell only part of the amount it has available. Notice that supplier E will be unable to market the amount Q_{e2} of its available surplus, even though supplier C is selling energy that has a higher production cost. In Figure 2-13, we have constructed a supply curve from these same suppliers in ascending order of cost, without regard to regional affiliation. In this case we see that supplier E would have no trouble marketing its full surplus, while its sales increase would displace C's higher cost sales one-for-one. Without bothering to graph the efficiency loss, it is clear that it would equal the difference in C and E's production costs, times the amount of sales that were shifted from C to E in Figure 2-13.

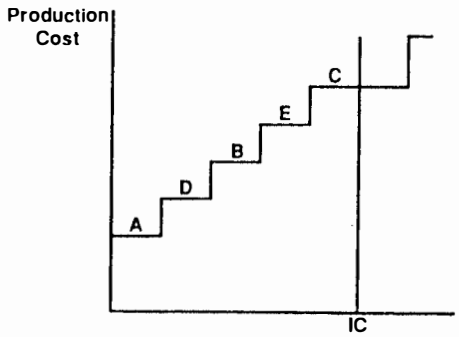


Figure 2-13. Supply Curve if Extraregionals Have Equal Access

Use-Your-Own-First Rule

The use-your-own-first rule is another aspect of the LTIAP that leads to obvious inefficiency. There are at least two situations where this would occur. These situations are mentioned here because they are definite possibilities given the prospect of a merger between Pacific Power and Light and Utah Power and Light, and the existence of Utah P&L connections to the Arizona/New Mexico region of the PSW.

In one case, suppose a PNW utility had physical access to a particular California utility through both the BPA Intertie and an alternative owned transmission line, but the two transmission systems were not connected to the same generating resources. Further, suppose the generating resource connected to the BPA Intertie had lower production costs than the generating resource connected to its own line. Then, if the non-federal PNW utility were not utilizing all of its own line, it would be required by the BPA use-your-own-first rule to offer the more expensive generation to the California utility rather than the lower cost generation on the BPA Intertie. The efficiency loss would be the difference in cost between the higher cost production used and the lower cost production denied use.

An even worse case is the following. Suppose a non-federal PNW utility is connected to a potential California customer only through the BPA Intertie, and that it has surplus supplies available by which both parties could benefit if a sale were made (i.e., the PNW production cost is less than the California buyer's next best energy source). If this PNW utility had ownership or contractual rights in other interregional

transmission capacity that was not being fully utilized, then the BPA rules would prevent the desired transaction along the Intertie from occurring, even though the PNW utility's own transmission capacity is not connected to the relevant part of the PSW buyer's system. In this case the transaction simply would not take place, and the entire social surplus that would have accrued to the transaction is lost.

This completes the theoretical analysis of the spot market effects of the LTIAP. At this point it is valuable to turn to empirical evidence of these market effects. Following that, Section 3 will discuss LTIAP effects on firm energy markets.

2.4 EMPIRICAL EVIDENCE OF IAP'S EFFECTS ON SHORT-TERM PRICES

Much of the discussion concerning the effects of market power has focused on the ability of the agent with the market power to alter prices to his advantage. In the case of an inerease in a producer's market power, the effect that would be observed is therefore an increase in price. An empirical test of the claim that BPA is using the IAP (and will use the LTIAP) to exercise market power would look at how prices have changed since the IAP went into effect in September 1984.

It is not sufficient however to merely point to an observed price difference because there are many other determinants of price that may also be simultaneously changing. Regression analysis is a statistical method for determining the effect of a single variable after controlling for other possible sources of change. In the case of the BPA, several other factors can be pointed to as possible causes of changes in the prices in the market. Principally these factors relate to the supply and demand conditions of the market. In the case of Intertie prices, some causes of higher prices might be reduced availability of hydro power in the north due to a dry winter, or increased demand in the north for the available PNW power. Factors that might lower prices would be the presence of large amounts of hydro in California, reduced load in the PSW or minimum generating requirements.

An empirical test using regression analysis was performed to assess the actual effect of the IAP on the spot prices paid by PG&E for Intertie power. This analysis sought out a number of possible explanatory variables, which could be generally categorized as either supply or demand indicators for both PG&E and for the PNW. The effects of time are also considered because there may be some shifts in pricing behavior over time that are not attributable to the IAP alone. These variables are listed in Table

2-1, including the units used. The data for each variable was provided by PG&E.[9] They are stated in monthly terms and cover the period from January 1982 to May 1987 inclusive.

Table 2-1

VARIABLES USED IN PRICE REGRESSIONS

Variable	Units
PREDICTED	
PG&E Price of Spot Energy from BPA	cents per kWh
PG&E Price of Spot Energy for Other Non-BPA Sources	cents per kWh
EXPLANATORY	
PG&E Load Served	GWh
PG&E Thermal Power Generated	GWh
PG&E Hydro Generation	GWh
PG&E Incremental Fuel Costs	cents per kWh
PG&E Minimum Generating Requirements	hours per month
PNW Coordinated System Load	average GW
PNW Operating Costs	GWh per month of Centralia production
PNW Spill Conditions	weeks per month of Condition 1, or spill conditions in pre-IAP periods
Presence of the IAP	equals 1 from 9/84 to 5/87, equals 0 otherwise
Time	starts at 1, increments by 1 each period: 1 to 65.

The regression analysis started by looking at the effect of all explanatory variables at once, for both the BPA price and for the non-federal PNW price. On the basis of these results, the less significant variables were removed until the final results were obtained that provided the most explanation of the price variations with the fewest number of

9. Should BPA need to verify these data, PG&E is willing to make the data used available for audit by a third party if contractual guarantees of protection of confidentiality can be obtained.

these variables. The final results are presented in Tables 2-2 and 2-3. It can be seen in these tables that the IAP has had a very significant effect on spot prices for both BPA and non-federal PNW power. The effect cannot be attributed to other market conditions because these have also been accounted for in the analysis.

Table 2-2

FINAL RESULTS FOR BPA'S SPOT PRICES PAID BY PG&E

Variable	Estimated Effect on Price	T Statistic	Sign. Level
Periods After 9/84	$8.3/MWh more than before 9/84	4.030	<0.01
PG&E Fuel Costs	$0.9/MWh per $1/MWh increase in fuel costs	4.826	<0.01
Weeks of PNW Spill Conditions per Month	-$2.5/MWh per week	-7.195	<0.01
PG&E Thermal Generation	-$3.1/MWh per 1000 GWh generated	-2.163	0.03
Time Trend	$0.2/MWh per month	2.656	0.01

R^2 = 0.72

Table 2-3

FINAL RESULTS FOR NON-FEDERAL PNW PRICES PAID BY PG&E

Variable	Estimated Effect on Price	T Statistic	Sign. Level
All Periods After 9/84	$10.1/MWh more than before 9/84	3.597	<0.01
Time Trend	-$0.2/MWh per month	-2.236	0.03
PG&E Fuel Costs	$0.4/MWh per $1/MWh increase in PG&E fuel costs	2.007	0.05

R^2 = 0.43

The results can be summarized to say that the net effect of the IAP has been to drive the BPA spot prices up by about $8/MWh and non-federal PNW spot prices up by

about $10 per MWh. These values are significantly different from zero with 99.9 percent confidence. Another way to interpret the confidence in these results is that we can say that there is a 95 percent probability that the IAP has caused the BPA Intertie spot prices to rise by somewhere between $4 and $12 per MWh and non-federal Intertie spot prices to rise by somewhere between $5 and $16 per MWh.

As part of the regression analysis, numerous other combinations of explanatory variables were tried. The results provided in Tables 2-2 and 2-3 represent the results for only those variables that were highly significant. However, regardless of the specification of the set of explanatory variables, the effect of the IAP remained stable and significant. There did not appear to be any important collinearities because the signs and significances of all the other explanatory variables also were robust under various specifications.

A few final words should be provided about the general explanatory power of the regression results. At the bottom of Tables 2-2 and 2-3 are R^2 values. These numbers indicate the fraction of the total variance in prices that the variables listed in the table are able to explain. It can be seen in Table 2-2 that 72 percent of the total BPA price to PG&E is correlated with the five variables of that regression. For the non-federal utilities, the R^2 is 43 percent. This indicates that something more complicated is going on in that market than can fully be explained by any subset of the variables listed in Table 2-1. Nevertheless, the very high significance of the IAP variable and of the PG&E fuel cost variable indicate that they are important factors in the pricing behavior of the non-federal PNW. Further analysis would be warranted before we could claim to have a very complete model of the non-federal PNW though. This fact is not surprising, given the size of BPA's share of the Intertie market.

Effects on Sharing of Market Benefits

Another logical step to take empirically is to assess how much of the benefits of the Intertie market are taken by the sellers. Earlier parts of this appendix have explained that the way the average transaction price sits relative to average incremental costs and average willingness to pay indicates which party obtains the larger share of the market's benefits for that transaction. There is nothing in economic theory to justify any particular split of the benefits, but a sure sign of increasing producer market power is the shifting of benefits over time to favor the producer. This very shift can be statistically identified when comparing the periods before and after the IAP.

Again, PG&E monthly data was used to compare benefits to PG&E and to the PNW. In Figure 2-14 we have plotted three values on a monthly basis. The highest curve represents the average incremental fuel costs of PG&E during each month. The middle curve tracks the sales-weighted average price of all spot energy on the Intertie. The lowest curve represents the average incremental production costs of PNW power. This is equal to zero during spill months, and approximated by a thermal opportunity value based on production costs for the Centralia and Bridger coal plants calculated in Table 2-4. Making benefit share calculations based on opportunity cost will underestimate the shares taken by BPA because BPA's incremental operating cost for nonfirm surplus is almost always zero. The assumption that average variable production costs of Centralia and Bridger represent opportunity costs will also often overstate the opportunity possible for non-federal energy. This fact is evident by noticing that these costs exceed BPA market expansion rates. Thus the estimates of the benefits shares taken by the non-federal PNW utilities will also be somewhat overstated.

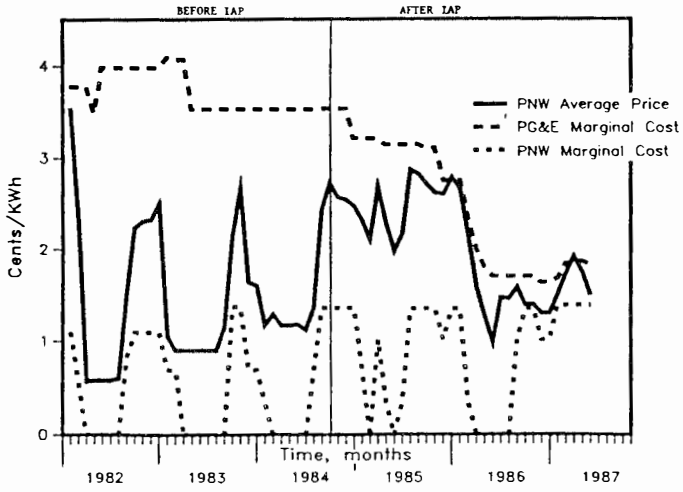


Figure 2-14. PG&E Nonfirm Intertie Energy Prices, Value of Service, and Marginal Production Costs

Table 2-4

DERIVATION OF PNW THERMAL OPPORTUNITY VALUE[a]
($ per MWh)

Year	Thermal Opp. Value	Centralia	Bridger
1981	10.1	9.536	10.45
1982	11.0	11.096	10.90
1983	13.8	13.972	13.70
1984	13.7	15.560	12.55
1985	13.6	16.060	11.95
1986	13.6	16.300	11.90
1987	14.0[b]		

a. Capacity weighted costs based on FERC Form 1s.
b. Estimated

As can be seen, there are substantial fluctuations in all costs and prices that make it difficult to observe directly the changing sharing of the market surplus. In particular, it should be noted that the benefit per unit of energy sales is declining with time. This is the difference between the value of service to PG&E and the marginal production cost to the PNW, and has been plotted in Figure 2-15. Clearly, although there may be an increasing share to the PNW over time, the share is of a smaller and smaller pie of benefits.

Despite these considerations, some clear statistical conclusions can be drawn about the effect of the IAP on the sharing of market benefits. Figures 2-16 and 2-17 present the fractions of net benefits per kWh taken each month by BPA and by the non-federal PNW respectively. The gaps in the data are periods where no sales were made to PG&E. The vertical bar indicates the location of September 1984, the date of the imposition of the IAP.

Because average incremental values are used, the fractions presented here represent the split of market benefits in each month. However, to obtain an estimate of the importance of any one month would also require information of the sales associated with each month. For instance, assume there are only two months under consideration, and in one month BPA gets only 10 percent of the net benefits per unit sold. Assume that in the other month BPA takes 90 percent of the net benefits per unit sold. The total

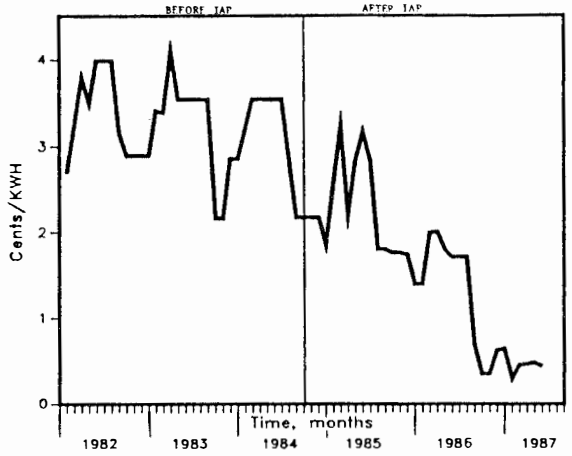


Figure 2-15. Net Benefits per kWh on PG&E Portion of Intertie Market

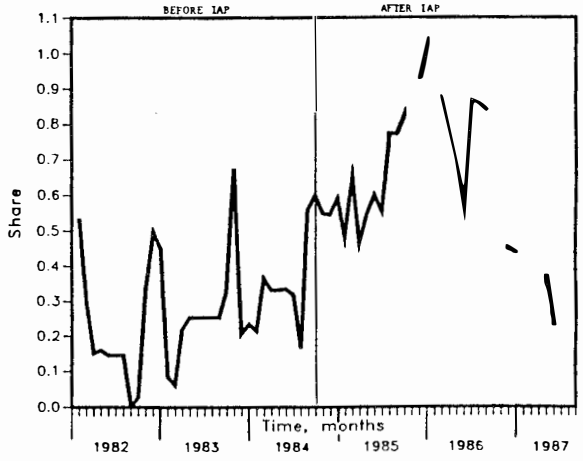


Figure 2-16. BPA's Fractions of Net Benefits per kWh

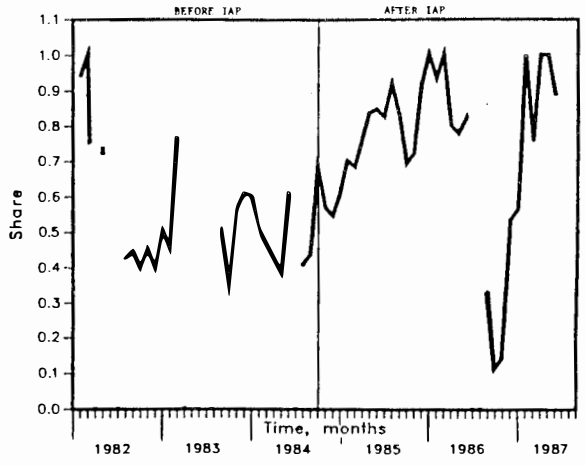


Figure 2-17. Non-Federal PNW Fractions of Net Benefits per kWh

benefits taken by BPA during the two period time span is not necessarily 50 percent. The fractions for each month must be weighted by the volume of sales at that fraction to obtain a correct estimate of the actual sharing of total market benefits throughout the two-period time span. This point, which was also discussed in Section 2.2, should be kept in mind in the following discussion. The figures plot the average monthly fractions per unit of sales. The comparison of total benefit shares before and after the IAP is however weighted by the sales volume in each month.

Although a trend is visible in the PNW fractions of net benefits per kWh sold, there is clearly a lot of noise, particularly during the years when the net benefits per kWh are lowest. However, statistical analysis indicates that the IAP accounts for 45 to 47 percent of the variance in the share of net benefits per kWh each month, and its explanatory value is significant at the 99.99 percent confidence level. Further, the BPA took 24 percent of the total benefits (the monthly fractions weighted by monthly sales) prior to the IAP, and 66 percent afterwards. The non-federal PNW similarly increased their share of the total benefits from 50 percent to 76 percent due to the imposition of the IAP.

An analysis was made to determine the causes of the noise visible in the charts of fractions of net benefits per kWh taken over time. It was hypothesized that the reason the statistics indicate such strong effects of the IAP on total benefit shares while the fractions in each month indicate a lot of noise is that the months where the aberrations are the greatest are months where the volume of sales was insignificant. To test this hypothesis, the months where sales were less than 100 GWh were dropped.

Figures 2-18 and 2-19 present the new results. Now the effects of the IAP, starting in September 1984 can be more clearly seen, especially in the case of the non-federal Intertie market. Although the fractions in each month have far less noise now, the effects of the IAP on total benefit shares are estimated to be essentially the same as estimated with the full dataset. BPA took 24 percent of the total benefits before the IAP and 67 percent afterwards. The non-federal PNW took 50 percent of total benefits before the IAP and 76 percent afterwards. Although these estimates of the shares are likely to be underestimates (as explained above) the bias is present in both the "before" and "after" share estimates and therefore probably does not affect the comparison between them.

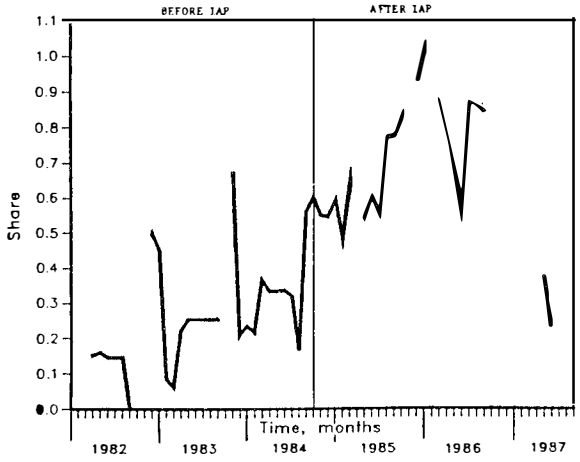


Figure 2-18. BPA's Fractions of Net Benefits per kWh (All Months with Sales Greater than 100 GWh)

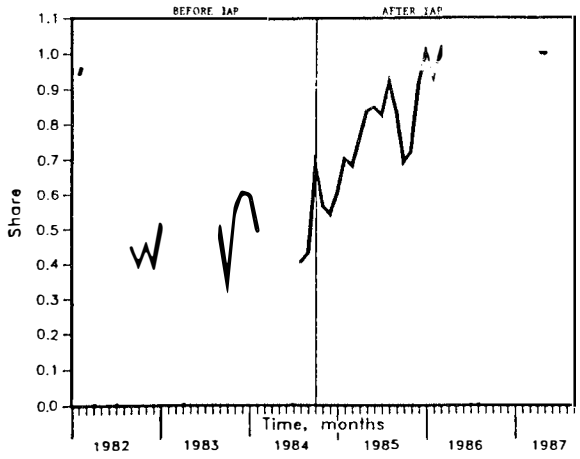


Figure 2-19. Non-Federal PNW's Fractions of Net Benefits per kWh (All Months With Sales Greater Than 100 GWh)

Thus it is clear that the noise in the data is attributable to periods of low volume sales, and that there is a very significant and large effect of the IAP on how much of the total market benefits are being taken by both the BPA and the non-federal PNW utilities. This is a clear indication that the IAP represents an outright exercise of the market power of the PNW as a whole.

In summary, the presence of the IAP has created price and equity outcomes that are fully consistent with the existence and exercise of market power on the part of all the PNW utilities.

Section 3

CRITIQUE OF ASSURED DELIVERY PROVISIONS OF THE BPA LTIAP

This brief section points out some aspects of the assured delivery provisions of the BPA LTIAP that will prove detrimental to both California and PNW utilities and their customers. The main problem resides in the restrictions affecting several types of transactions that require assured delivery access. In particular, the policy places long term limits on the amount of assured delivery available for firm power sales and seasonal exchanges, and prohibits assured delivery access for peaking capacity sales and capacity-energy exchanges entirely. Combined with other aspects of the policy, including mitigation and the effective BPA recapture of any new PNW-California transmission capacity, these restrictions will harm both regions by causing an misallocation of future new generation resources. Namely, the prohibition of seasonal peaking exchanges will result in earlier building of resources in both regions, and some economic resources may not be built at all in the PNW while uneconomic resources are built in California instead. The reverse is also a possibility.

The following four aspects of the LTIAP could severely decrease the value of potential new generating resources that might otherwise be built in the PNW.

1. Assured delivery for PNW firm power sales to California are to be permanently limited to 361 MW. As this is the estimated current firm energy surplus among PNW utilities, this may not seem like a very severe restriction right now. However, the LTIAP states that although BPA may change the shares of the individual utilities over time as conditions change, the overall limit of 361 MW "is not subject to increase."

2. A similar upper limit is applied to seasonal exchange limits. Seasonal exchanges are to be limited to 440 MW, which is BPA's estimate of the current August Firm Energy Load Carrying Capability (FELCC) surplus of the PNW coordinated system after accounting for the 361 MW in (1) above. Again, this may not sound like a severe limit at first reading, but BPA goes on to state that this limit is unlikely to ever be increased, even if "we have underestimated summertime FELCC."[10]

10. "Explanation of BPA's Revised Draft Long Term Access Policy," December 15, 1987, by the BPA, p. 2.

Thus, a utility or other enterprise considering building a new generation resource in the PNW cannot count on new firm power sales or seasonal exchanges with California when evaluating the attractiveness of their potential investment. This could make the difference between building or not building a new generation resource, not only in cases where firm power sales and/or seasonal exchanges would have been the primary factors motivating the investment, but in other cases where, as subsidiary benefits, they could make the difference in an an otherwise marginal investment.

3. The LTIAP's mitigation procedure is yet another factor decreasing the potential attractiveness of new generation investment in the PNW. The perceived value of any firm power contracts must be decreased by the possibility of mitigation, because when mitigation is in effect, a utility's spot energy sales allotment must be offset by any firm power sales taking place. The expected value of those foregone spot energy sales must be subtracted from the value of the firm power contracts.

4. The fourth inhibiting aspect of the LTIAP is a provision which essentially guarantees that BPA can recapture for its own use any new interregional capacity that might be built or contracted for by another PNW utility! The provision says, quite simply, that a non-federal PNW utility's "Assured Delivery service [on the BPA Intertie] will be reduced ... by the amount of transmission capacity to California later acquired by a Scheduling Utility [i.e., PNW utility] through ownership or contract."[11] This means that if a non-federal utility builds or even contracts for any new transmission capacity to California, the LTIAP results in the non-federal utility experiencing a zero net increase in interregional capacity, while BPA (by taking back formerly committed Intertie capacity) experiences an increase equal to 100% of the level of new capacity acquired by the non-federal utility!

For the seasonal exchanges that are allowed, the no cash out and requirements to schedule to the Oregon border result in further mitigation and extra "phantom" wheeling, for which BPA charges.

So, the combined effect of these provisions is that a non-federal utility wanting to build a new generating resource in the Northwest cannot count on any new assured delivery access on the BPA Intertie to enable any new firm power sales or seasonal exchanges with California, nor can it even consider building or contracting for any other interregional transmission capacity, for such new capacity would merely displace its existing assured delivery rights on the BPA Intertie one-for-one.

The inevitable consequence of inhibiting otherwise economic generating resources

11. "Revised Draft Long Term Access Policy," Dec. 15, 1987 by the BPA, p. 1, Definition 4.

in the PNW (that can provide assured delivery to California) is to stimulate addition of otherwise uneconomic resources in California. In addition to the limits on firm power sales and seasonal exchanges, the LTIAP completely prohibits peaking capacity sales and capacity energy sales. Compared to a situation where simple market forces could determine in which region it would be most economic to build the new generation resources that will be needed in the future, the LTIAP restrictions will lead to expensive new facilities being built in California. It is likely that many of these facilities will be cogeneration and other "qualifying facilities" which by law cannot be displaced in the future by energy from the PNW, even if the PNW energy is cheaper.[12]

12. See testimony of Robert J. Haywood, V.P. Power Contracts, PG&E, to the Subcommittee on Water and Power Resources of the Committee on Interior and Insular Affairs of the U.S. House of Representatives on May 7, 1987, p. 34.

Appendix B

SURPLUS NON-FIRM REVENUE ANALYSIS

Part 1

SURPLUS NON-FIRM REVENUE ANALYSIS RESULTS

The analyses of surplus non-firm energy transactions for three alternative Intertie access policies were performed using the method described in Appendix B Part 2. All analyses use the same California demand and PNW regional supply curves. Intertie capacity available for non-firm surplus transactions is limited to 4000 MW for each policy. Thus, the same quantities of surplus non-firm energy are transacted between PNW and California under each Intertie access policy, determined by either the Intertie capacity or the market equilibrium, whichever is smaller. We assume that no non-firm energy transactions are lost under the less competitive access policies with higher prices. As discussed in Appendix A, there is reason to believe that it is certainly in California's interest to take actions that shift its demand curve for PNW exportable non-firm energy. The assumption that quantities transacted are the same is an assumption favorable to BPA and tends to overestimate BPA's revenues under the less competitive LTIAP and the BPA-first Intertie access policies. The prices and associated distribution of benefits vary widely among the three policies, however. Whereas there are no changes in economic efficiency in the static surplus non-firm analysis, the variation in the distribution of benefits among the parties raises important equity issues.

Surplus non-firm energy transactions under three Intertie access policies are analyzed. The first policy is the proposed LTIAP with modifications based on statements of John Cameron to Stuart Gardiner on January 27, 1988. Briefly, the analysis of the LTIAP assumes that during spill conditions BPA realizes two-thirds of the Intertie based on declarations of surplus availability. The remaining one-third of the Intertie is allocated among individual PNW producers based on their declarations of surplus non-firm energy availability.

During no-spill conditions when the Intertie is full, Intertie access is allocated as in spill conditions. At all other times, the California market is less than Intertie capacity and transactions between the two regions occur at market equilibrium prices and quantities.

The second Intertie access policy analyzed is the BPA-first policy in which, during spill conditions or when the Intertie is full, BPA reserves a portion of the Intertie for its

own use. BPA's reserved portion is assumed to be two-thirds, again based on declarations of surplus availability. Non-federal producers are not allocated shares of the remaining Intertie, but are instead allowed to compete for California sales. BC Hydro non-firm surplus is also allowed to compete during non-spill conditions. The competition is assumed to result in a split savings price for transactions that occur when the Intertie is full. The split savings price is equal to the marginal cost of supplying the energy plus one-half of the difference between the willingness to pay at the Intertie capacity quantity and the marginal cost. All other transactions when the California market is less than the Intertie capacity are assumed to occur at market clearing prices.

The third policy is the fully competitive when not spilling policy. We assume that during spill conditions or when the Intertie is full, BPA similarly allocates a portion of the Intertie for its own use. BPA establishes a price cap on quantities transacted with California during Condition 1. The price cap is equal to the split savings price, and is designed to achieve a more equitable sharing of the benefits from trade in non-firm energy. Non-federal transactions are assumed to also occur at the split savings price when the Intertie is full. BC Hydro non-firm surplus is also allowed to compete during non-spill conditions. All transactions occur at market equilibrium prices when the California market is less than the Intertie capacity.

Results for the three alternative policies are shown in Table B-1. PNW regional revenues and California costs are largest under the LTIAP. All transactions under the LTIAP occur at the maximum possible price or willingness to pay, giving the PNW region virtually all of the benefits from trade in non-firm energy. Non-federal producers sell a large share of the exported surplus non-firm energy under the LTIAP because the non-federal portion of the Intertie is allocated among individual producers, enabling them to charge the maximum possible price that California is willing to pay. When prices for exported non-firm energy are high, it is more attractive for PNW producers to sell to California rather than to displace regional thermal generation. BPA sells at least two-thirds of the California market and displaces a large portion of the regional coal-fired generation.

Under the BPA-first access policy we assume that BPA reserves two-thirds of the available Intertie for its own use. The one-third of the Intertie that is allocated to non-federal producers is not allocated among individual producers. The market is more competitive because producers now have the incentive to increase market share and profits by reducing the price. Non-federal producers find it economical to displace more regional coal-fired generation and sell less to the California market as a result of the

lower assumed split savings price. BPA can still extract full rent attributable to the scarce Intertie resource when the Intertie is full. Federal revenues from sales to California increase over those under the proposed LTIAP because the amount of energy sold to California increases. Market expansion revenues decrease to the extent non-federal producers displace more regional generation because displacement of PNW thermal by other PNW producers is more attractive than sales to California at competitive prices. It is this shifting of non-federal energy to thermal displacement that increases federal sales to California. California's total costs of surplus non-firm energy decrease under the BPA-first policy because the transactions with non-federal producers occur at a split savings price. The decrease in California's costs is partially offset by an increase in the costs of federal energy.

The distribution of benefits is skewed towards the PNW region under both the LTIAP and the BPA-first access policy in which BPA still charges the maximum possible prices for its surplus non-firm transactions. The fully competitive policy, in which, on average, all parties share the benefits from the trade in surplus non-firm energy, shows the extent of California's costs and loss of benefits under the less competitive policies. Under the fully competitive access policy all Intertie constrained transactions are assumed to occur at the split savings price. The rents attributable to the scarce Intertie resource are divided equally between the two regions. Non-federal producers are equally well off under the BPA-first and fully competitive when not spilling policies. They sell the same quantities of non-firm energy at the same split savings prices. BPA shares the benefits attributable to the scarce Intertie with California under the fully competitive policy. California receives $65.5 million per year in non-firm energy cost savings when the benefits of trade are equally shared. The source of the savings is equally divided between federal and non-federal producers.

Table B-1. Surplus Non-Firm Revenue Analysis
(FY 1989 $Million/Year)

	LTIAP	Competitive For Non-BPA	Change From LTIAP	Competitive For All PNW	Change From LTIAP
BPA Intertie Sales	182.0	202.3	+20.3	151.6	-30.4
Transmission Revenues	5.6	2.5	-3.1	2.5	-3.1
Expansion Sales	89.3	48.7	-40.6	48.7	-40.6
Total BPA Revenue	276.9	253.5	-23.4	202.8	-74.1
Non-BPA Intertie Sales	53.0	18.0	-35.0	17.9	-35.1
PSW Costs	235.0	220.3	-14.7	169.5	-65.5

Part 2

SURPLUS NON-FIRM ENERGY ANALYSIS EVALUATION PROCESS

I. INTRODUCTION

The Intertie access policy contains a set of rules governing access to the Intertie by federal and non-federal non-firm energy producers during different hydro conditions. BPA allocates access to the scarce transmission resource and establishes the economic incentives and opportunities for PNW producers within the market setting determined by basic supply and demand conditions. This section describes the process used to determine the effects of three alternative Intertie access policies on the prices and quantities of non-firm surplus exported to California and the distribution of benefits from non-firm energy trade among the parties. California demand curves and PNW supply curves for exportable non-firm energy are first developed. Prices and quantities of non-firm energy transacted between the two regions are then determined from demand and supply interactions and the Intertie access policy being considered. Finally, Intertie sales are allocated between non-federal and federal producers based on Intertie access rules and profit- maximizing behavior.

II. SURPLUS ENERGY AVAILABILITY IN THE PNW REGION

Surplus non-firm energy is the energy that exceeds the PNW region's firm energy load carrying capability. The amount of non-firm energy available for export depends directly on the hydro conditions. Surplus energy exists in other than critical water years. An estimate of surplus non-firm energy for fiscal year 1989 is derived from forty years of data on non-firm surplus energy when the region was in approximate energy balance. The data are from "Northwest Regional Forecast of Power Loads and Resources, July 1987-June 2007, Technical Appendix", Pacific Northwest Utilities Conference Committee, March 1987.

Seasonal Averages

The monthly data for the forty year period are divided into two seasons with different hydro conditions, Jan-Jul with a significant amount of surplus energy and Aug-Dec with less surplus energy and a significant amount of time with no surplus.

Surplus Outcomes

For each season, monthly data for the forty year period are sorted by increasing non-firm surplus energy availability. This sorted list is a cumulative probability distribution for surplus non-firm energy, indicating the probability (fraction of time) that non-firm energy is less than any particular value on the list. The continuous probability distribution is then discretized into the following hydro outcomes and associated likelihoods of occurrence.

Season	Hydro Outcome (aMW)	Probability
Jan-Jul	0	0.20
	1200	0.10
	3300	0.15
	5500	0.25 Spill
	10200	0.30 Spill
Aug-Dec	0	0.50
	1200	0.25
	3000	0.15
	6200	0.10 Spill

Average surplus hydro is 5050 aMW for the Jan-Jul season. Average surplus hydro for the Aug-Dec season is 1370 aMW. As a point of reference, BC Hydro average non-firm surplus amounts to 185 aMW based on PG&E supplied data.

III. CALIFORNIA DEMAND CURVES

Data for California demand for exportable non-firm energy for fiscal year 1989 are derived from BPA's "Non-firm Revenue Analysis Program", January 4, 1988. These data are divided into the Jan-Jul and Aug-Dec seasons, and average quantities demanded are calculated for each price. Demand is slightly higher during Jan-Jul for two reasons. The surplus hydro within California is low during the winter months and demand is high during the summer months of June and July.

For each season, California demand is divided into 50% "peak" and 50% "off-peak" demand based on the assumption that the PNW region has sufficient capacity to shape non-firm energy to serve California's highest valued demand.

The Intertie capacity for non-firm energy , calculated as Intertie capacity less an allowance for loop flow and outages and other PNW-owned portion, is assumed to be 4000 MW for the FY 89 period.

Assuming that the capacity of the Intertie is 4000 MW, the highest valued 2000 aMW of California demand is shaped into 4000 aMW of peak demand for 0.5 of the time and the next 2000 aMW is shaped into 4000 aMW of off-peak demand for 0.5 of the time.

IV. REGIONAL SUPPLY CURVES

The regional supply curve indicates the marginal cost of supplying exportable non-firm energy to California. Surplus energy that is available in other than critical water years can be used within the PNW region to displace the coal-fired generation that is otherwise used to meet native load. PNW surplus energy can also be sold to California to displace thermal generation. The cost to the PNW region of exporting surplus energy is the opportunity cost of that energy within the region. To the extent that the surplus energy could be used to displace PNW coal-fired generation, the marginal cost of the exported non-firm energy is the cost of foregone thermal displacement. When there is enough surplus energy to completely displace PNW thermal generation and export to California, the excess non-firm energy over complete PNW thermal displacement has a zero marginal cost since it has no alternative use within the region. The quantities of PNW coal-fired generation that the surplus energy potentially displaces are derived from the PNUCC Technical Appendix, March, 1987. The costs of the coal-fired generation are from the Memo to Robert C. Lamb, Power Systems Branch, from Richard M. Pendergrass, Intertie/Sales Section, regarding the data request from Richard Buckingham of PG&E Company, January, 1988.

Supply curves are derived for each hydro outcome for each season since the marginal cost is based on surplus availability. Surplus hydro is assumed to be two-thirds federal and one-third non-federal, based on ownership of installed capacity and firm energy capabilities of PNW hydro facilities.

V. NON-FIRM TRANSACTIONS

California demand for exportable non-firm energy and PNW regional supply form the basis for transactions between the two regions. Within the demand and supply framework, the Intertie access policy determines the economic incentives of the parties and the opportunities to extract the rents attributable to the scarce transmission resource. The policy variables under federal control in the non-firm energy market are:

(1) allocation of the Intertie or California market between federal and non-federal producers

(2) allocation of the non-federal portion of the Intertie among non-federal producers

(3) transmission charges and

(4) federal price caps on transactions with California.

Intertie Access Policies

Three distinct Intertie access policies with different effects on the market for non-firm energy are analyzed.

(1) LTIAP

The LTIAP is the access policy proposed by BPA with modifications promulgated on January 27, 1988 based on statements by John Cameron, IAP Project Manager, to Stuart Gardiner of PG&E. During spill conditions, as defined by BPA, BPA receives a fraction equal to its pro rata declaration of surplus, usually two-thirds, of the Intertie. BPA reserves the same fraction of the California market if the market is smaller than the Intertie capacity.

The remaining non-federal portion (one-third) is allocated by BPA among non-federal producers based on individual declarations of surplus availability. The market allocation scheme gives each individual producer monopoly power over his Intertie allocation. Non-federal producers have the incentive and the ability to extract full rent attributable to the scarce Intertie resource, charging a price equal to the maximum willingness to pay at the Intertie capacity quantity.

During no spill conditions when the Intertie is full (Condition 2), BPA allocates access based on declarations as in spill conditions. During no spill conditions when the Intertie is not full, the California market is competitive and price is determined by the competitive equilibrium.

(2) BPA-FIRST

In the BPA-first Intertie access policy BPA protects its revenues by reserving a portion of the Intertie for its own use, but allows the rest of the market to sell competitively. This policy is similar to implementing Section 5d of the proposed LTIAP immediately.

During spill conditions, BPA reserves a fraction of the Intertie or the California market as in the LTIAP. The remaining portion of the Intertie or the California market allocated for non-federal use is not allocated among individual producers. Since a producer can increase profits by reducing price below the maximum willingness to pay and thereby gain market share, the remaining market is competitive subject to the capacity limitations of the Intertie. Transactions between California and non-federal producers of quantities at the Intertie capacity are assumed to occur at a "split-savings" price equal to the marginal cost plus transmission charge plus one-half of the difference between the demand cost (willingness to pay) and the marginal cost including the transmission charge. Transactions at less than the Intertie capacity are assumed to occur at the market clearing price.

During no spill conditions, BPA reserves a fraction of the Intertie if the Intertie is full. Otherwise the market is competitive, and transactions occur at market clearing prices.

(3) FULLY COMPETITIVE WHEN NOT SPILLING

During spill conditions, BPA allocates to the Intertie based on declaration of surplus. During spill conditions BPA establishes a price cap on its own transactions with California that permit California to share in the benefits. Transactions between California and all PNW producers are assumed to occur at the split savings prices when the Intertie is full. During other times when the California market is less that the Intertie, transactions occur at market clearing prices.

Prices and Quantities Transacted for a Given Access Policy

For each spill condition or full Intertie, the California market or Intertie is first allocated to federal and non-federal producers. All parties are assumed to maximize profits for a given policy. Prices, resulting from profit-maximizing behavior, are determined for each hydro outcome for the policy under consideration.

Federal and non-federal prices are equal under the LTIAP, set at the maximum willingness to pay if the Intertie is full, or the market clearing price if the California market is smaller than the Intertie capacity. The price that non-federal producers receive is the transaction price less the transmission charge.

For the BPA-first policy, the federal price is the maximum willingness to pay at the quantity equal to the Intertie capacity. Thus, BPA receives the same price under the

LTIAP and the BPA-first access policies. The non-federal transaction price is the split savings price. The price that non-federal producers receive is the split savings price less the transmission charge.

For the fully competitive when not spilling access policy, transactions that occur along a full Intertie are assumed to occur at the split savings price cap established by BPA.

For no-spill hydro outcomes when the market is less than the Intertie, prices and quantities are market clearing for all access policies.

Profit-Maximizing Non-federal and Federal Sales

PNW non-federal producers are assumed to be price-takers in the California and market expansion markets. Given the market prices less transmission charges, the predetermined market expansion rates for federal power sold to displace PNW thermal generation, and allocations, if any, determined by the access policy and hydro outcome, non-federal producers are assumed to sell surplus in order of the decreasing decremental generation cost either to the California market or to displace regional coal-fired generation. The demand for federal market expansion power at market expansion rates (70% of thermal generation costs) is equal to the coal-fired generation not displaced by non-federal surplus. Thus non-federal surplus is allocated to California and PNW displacement.

BPA then transacts with California and the non-federal generation facilities, also selling surplus in order of decreasing decremental generation cost. If all surplus is exhausted before all regional coal-fired generation is economically displaced, coal-fired generation occurs in the region.

Part 3

CALIFORNIA RESPONSE

This section examines the motivation of California to respond to an IAP which both significantly changes the fraction of the net Intertie benefits realized by the PNW and is likely to exist for a substantial period under the proposed LTIAP.

The IAP's most substantial impact occurs when the Intertie is a scarce resource. This happens when Intertie capacity constrains the quantity of power transacted rather than at the equilibrium of supply and demand (see Figure A). This also happens when BPA artificially constrains the Intertie to its perception of the California market. As described in Appendix A Section 2, the price outcome in this market situation depends on relative market power.

When applying this to the Intertie situation covering non-firm surplus energy, the supply curve strongly depends on the non-firm surplus and opportunity costs in the PNW. The demand curve depends on the short run incremental operating costs in California.

Now let's examine the effects of various levels of market power and the resulting sharing of benefits. Assume the transaction price falls somewhere between P_d and P_s. If the purchaser has substantial market power he will drive the price towards P_s. As a result, he will have little motivation to adjust his demand curve. If, however, the supplier has the advantage in the market, then the price will be close to and strongly related to P_d. In the case where the price is exactly P_d, a shift in the demand curve to the left will reduce the price to P'_d, and result in a savings to the demander of $(P_d - P'_d)$ multiplied by Q_i. In circumstances where the supplier has substantial market power and informs the demander that he intends to charge 80 per cent of P_d, the result of shifting the demand curve to the left would be $0.80\ (P_d - P'_d)\ (Qi)$.

The evidence in Section 2 supports the existence of substantial market power in the hands of the PNW. There are also implicit statements that BPA expects to transact non-firm energy surpluses at a large fraction of P_d. Thus California has a motivation to move its demand curve if feasible.

BPA has published two different sets of information concerning California demand (BPA, "Analysis of Condition 1 Intertie Allocation Alternatives" and "Overview of and

Preliminary Conclusions on Third AC Participation Study" from Pacific Northwest Third AC Intertie Draft Participation Study, January 1988). The elasticity of demand near the on-peak delivery constraints is almost always less than -1.0. This suggests that PNW risks losing overall revenue if its prices are set at higher levels or if BPA artificially constrains the market as is possible under Condition 1. The same information allows the calculation of how much California gains by shifting its demand curve to the left. If California believes that PNW's objective is to exercise the full market power that would exist under the LTIAP and that has been demonstrated with the IAP, then California by shifting its demand curve would benefit about $70/kw-yr in 1989 and about $50/kw-yr in 1992.

Several possibilities exist to shift California demand curve. New generating capability with low variable operating cost is a possibility. This will shift the demand curve because it moves all other resources up in the loading order. Thus it takes higher demand to experience the same decremental operating costs. Non-displacable generating additions such as certain independent power producers (e.g. QFs) have a similar effect. This is not to say the QF should be paid more per se, but that in exchange for additional conditions with QF purchase agreements allowing California to reduce PNW prices, QFs could receive more benefits in exchange for assuming more risk. It is also possible for California to adjust its fuel procurement practices to account for the limited benefits resulting from non-firm PNW surplus energy. The alternatives include straight forward recognition that fuel transportation cost, now considered a variable cost, can become a fixed cost. Drastic measures would involve purchasing gas resources or arrangements that convert part of the traditional variable cost into a fixed cost. Another response to reduce variable fuel costs would be to sell options that assume the risk of surplus PNW energy availability. For example, California utilities agree to pay price X for a certain flow of gas unless the PNW has a good hydro outcome. In the event of a good hydro outcome the price would be reduced to 0.75(X).

If significant market power exists in the market for non-firm PNW energy sold to California and California believes that PNW producers will exercise that power, then California has a series of options that it can pursue. The options will produce inefficiencies; however, costs to California electricity customers will decrease and profits to other California suppliers will increase. The loser will be the PNW producer of non-firm energy.

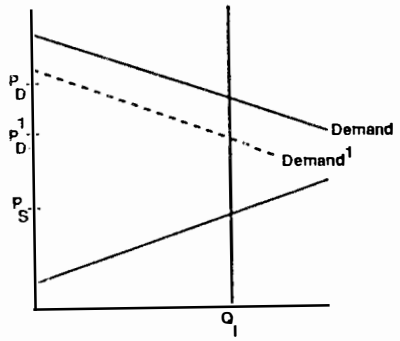


Figure A. An Intertie Capacity Constrained Market

Appendix C

PROFESSIONAL BIOGRAPHIES OF THE MAJOR CONTRIBUTORS TO THIS REPORT

RICHARD B. FANCHER, President

SPECIALIZED PROFESSIONAL COMPETENCE

Electric utility planning, evaluation, analysis, and modeling.

MAJOR CONSULTING AREAS AT DECISION FOCUS (1979-present)

- *Hydro Relicensing.* Evaluation for the current owner of a competitive takover of an existing hydroelectric facility under relicensing. The analysis showed that the competitor's only effective use of the project was its sale to other utilities and that the improvements proposed by the competitor were not cost effective.
- *Operating Flexibility.* Analyzed the cost of meeting electric utility dynamic operating requirements at several utilities. Quantified the benefits offered by generating technologies having greater operating flexibility.
- *Special Hydroelectric Attributes.* Analyzed the special attributes of hydroelectric resources to meet a West Coast electric utility's needs. Applied the resulting methodology to candidate development alternatives.
- *Utility Risk.* Analyzed and quantified the risk of several alternative generation options for a West Coast utility.
- *Fuel Inventory.* Development of an analytical framework to evaluate alternative inventory policies. Application at several utilities.
- *Fuel Supply Strategy.* Development and application of a decision analysis framework for evaluating different procurement strategies for coal, oil, and gas fuel supply.
- *Demand-Side Planning.* Development and application of a model for analyzing electric utility load management decisions (LMSTM), including the impact of capacity planning, utility revenue, and customer well-being.
- *Integrated Planning.* Development for the Tennessee Valley Authority of the Strategic Analysis Model, which optimizes generation expansion taking into account consumer actions to implement load management, conservation, and cogeneration or to use competing energy forms, such as natural gas or solar.
- *Marginal Costs.* Led development of marginal costs methodology used by Pacific Gas and Electric for purposes ranging from plant design to contract negotiations. PGandE adopted this technique as the life-cycle cost-effectiveness standard for load management and customer conservation programs for both internal evaluation and regulatory proceedings.
- *Commercialization of the Over/Under Capacity Planning Model* for EPRI. Presented four regional workshops, assisted in the development of the users guide, and developed the revised version.

- *Capacity Planning.* Evaluation of generation expansion plans for internal studies and regulatory hearings using the Over/Under model. Major participation in development and commercialization and enhancement of the model.
- *Third Party Generators.* Consultant to California Independent Energy Producers for development of long-term contracts based on avoided cost principles and explicitly addressing risk issues. Assisted Houston Lighting and Power in modifying PURPA rates to achieve desirable delivery patterns.
- *Utility Financial Analysis.* Methodology development for approximating cost of service under different regulatory, tax, and financial policies for various electric utilities, Department of Energy, and Gas Research Institute.
- *Commercial Analysis of New Technologies.* Analysis of the effect of fuel cells, small nuclear plants, modular generation, turbocharged boilers, reheat gas turbines, and storage products on electric utility capacity expansion decisions for EPRI.
- *End-Use Analysis.* Analysis of University of California, Berkeley campus and Lawrence Berkeley Laboratory energy consumption patterns by end use.

GENERATION RESOURCE PLANNER, PACIFIC GAS AND ELECTRIC COMPANY (1971-1979)

- Supervised Generation System Analysis Group with responsibility for developing electric resource plans and supporting their implementation. Principal areas of responsibility included power need; service reliability; risk and economic analysis; forecasting system capital requirements, fuel requirements, operating costs, and emission characteristics.
- Designed PGandE's case in the California Public Utilities Commission's investigation into the company's generation resource planning process and the relative merits and cost-effectiveness of the entire range of options available to PGandE and its customers for providing energy services, whether through energy conversation or traditional or alternative supply technologies.
- PGandE's project coordinator for the DFI/Electric Power Research Institute project, Electric Capacity Planning Under Uncertainty: Costs and Benefits of Over/Under Capacity Decisions.
- Developed the analysis and recommendation resulting in increasing a pumped storage project from 700 megawatts to 1125 megawatts. Developed the economic sections of both the California PUC and FPC license application. Work with the regulatory staffs resulted in their positive recommendation for the project; the license was subsequently issued without hearings.
- As a member of PGandE's coal analysis team, participated in the initial decision to obtain reserves in central Utah and in the subsequent decision to proceed with a direct-fired coal plant in the Sacramento Delta after extensive examination of coal gasification.

- Managed a four-department study of oil gasification combined cycles, which identified their usefulness as a cogeneration vehicle in California's extensive steam-driven secondary oil fields. Contract negotiations for two cogeneration projects totaling 600 megawatts started as a result of this work.

  In 1974 developed an analysis of cogeneration, correctly forecasting the current trends. Assisted in numerous project-specific feasibility studies and negotiations.

- Analyzed energy systems, comparing cost and efficiency from primary sources through to residential end use.

- In 1972 and in 1976, analyzed the economics of low-temperature solar devices and their impact on PGandE.

- As a member of PGandE's solid waste energy recovery team, assisted with several economic and financial feasibility studies.

- Extensive computer applications including a large-scale base and report generating system, data preprocessors, probabilistic hydroelectric analysis, and algorithm specification and formulation for an advanced electric system operating simulator.

COMMUNICATION EXPERIENCE

- Testified before the New York State Energy Planning Board and the public service commissions of California, Illinois, Iowa, Missouri and Texas. Presented invited testimony to the California Senate Committee on Energy.

- Authored seven major policy statements given by PGandE officers to legislative bodies or regulatory commissions.

- Made numerous presentations on energy policy and problems to legislative staffs, educators, college classes, radio and TV talk shows.

MANAGEMENT EXPERIENCE

- Managed forty electric utility projects at DFI totaling more than $5 million.

- Serving as DFI President and Chairman of the Executive Committee.

- Supervised six professionals in PGandE's Generation Resource Planning group.

OTHER PROFESSIONAL EXPERIENCE (1966-1975)

- *Energy Conversion Research Laboratory, U.S. Air Force.* Research project engineer responsible for the development of an advanced aircraft propulsion lift system. Responsibilities included engineering systems analysis to identify key areas of importance; the design, test, and data analysis of companion experiments; and explanation of complex technical ideas to both professional colleagues and nontechnical managers. Two U.S. Air Force awards for inventions.

- *Independent Consultant.* Economic analysis of the 1.3 million kilowatt Tocks Island pumped storage project on the Delaware River.

- *National Aeronautics and Space Administration.* Development of new guidance control system for the Apollo Applications Lunar Mapping Project.

ACADEMIC BACKGROUND

- M.B.A., University of Dayton (1971).

- M.S., Nuclear Engineering, Massachusetts Institute of Technology (1968).

- B.S., Engineering Science and Astronautics, Air Force Academy (1967).

SELECTED PUBLICATIONS

Fuel Contracting Under Uncertainty, IEEE 85SM466-8. *Utility Fuel Inventory Model: Version 1.0*, report prepared by DFI for EPRI (EA-4079) (August 1985). *Probabilistic Production Costing with Load-Shifting Resources Using Discrete Approximations*, IEEE Transactions on Power Apparatus and Systems, Vol. PAS-103, No. 8, August 1984 pp. 2089-2097. *Derivatives in Probabilistic Simulations of Electric Power System Operations*, IEEE 84WM 076-6. *Application of the Over/Under Model to Iowa-Illinois Gas and Electric Company*, DFI Report (1983). *Application of the Over/Under Model to Iowa Power and Light Company*, DFI Report (1983). *Version 2 of the Over/Under Capacity Planning Model*, EPRI Report (1983). *The Strategic Analysis Model*, DFI Report (1983). *Response of CIEP to Commission Decision and Request for Comments on Long Run Avoided Cost Methodology* (1983). *Load Management Strategy Testing Model*, EPRI Report (1982). *An Analysis of the Arizona Public Service Company's Construction Program*, DFI Report (1982). *Load Management Strategy Testing Model Case Study*, DFI Report (1982). *Coal Procurement: Spot Purchases Versus Long-Term Contracts*, DFI Working Paper (1982). *Users Guide to the Load Management Strategy Testing Model*, EPRI Report (1982). *Derivatives in Probabilistic Simulations of Electric Power Operations* (1982). *Application of the Over/Under Model to Capacity Expansion Planning in the Kansas City Power and Light Company*, DFI Report (1982). *Electric Load Analysis for the University of California at Berkeley and Lawrence Berkeley Laboratory*, DFI Report (1981). *Costs and Benefits of Over/Under Capacity in Union Electric System Planning*, DFI Report (1980). *Marginal Generating Costs Resulting from a Regional Investment Plan* (1980). *Calculating the Cost of Producing Energy for Regulated and Nonregulated Industry* (1980). *Costs and Benefits of Over/Under Capacity to the New York Electric System*, DFI Report (1979). "Direct and Indirect Economic, Social and Environmental Impacts of the Passage of the California Nuclear Power Plants Initiative," *Federal Energy Administration* (1976). "Low-Area Ratio, Thrust-Augmenting Ejectors," *Journal of Aircraft* (1971).

DR. ROBERT L. PHILLIPS, Senior Associate

PROFESSIONAL EXPERTISE

Travel industry planning and operations. Application of management science techniques to improve corporate planning. Design and development of quantitative decision support systems. Market modeling and assessment.

MAJOR CONSULTING PROJECTS AT DECISION FOCUS (1977 - present)

- *Scandinavian Airlines System (SAS)*
  - Development of a decision support system for fleet-planning decisions.
  - Analysis of a major fleet replacement decision.
- *United Airlines*
  - Design and development of a fleet-planning system.
  - Analysis of aircraft purchase and disposition decisions.
  - Design and development of an automated scheduling system.
  - Design of a strategic-planning methodology.
  - Analysis of merger and acquisition candidates.
  - Development of a "five-year" strategic plan.
  - Design and development of a decision support system to improve on-time performance.
  - Design and development of a system to optimize aircraft assignments.
  - Organization of a corporate forecasting department.
- *U.S. Department of Energy*
  - Development of a methodology for determining optimal R&D funding for fossil energy projects.
  - Development of a generalized equilibrium model of US energy markets (the LEAP model).
  - Development of a technique for forecasting US energy industry *pro forma* financial flows.
- *Tennessee Valley Authority*
  - Design and development of a regional energy-economy model.
  - Development of an economic model of industrial and residential retrofitting.

Conducted seminars in applications of energy modeling techniques for clients including Chase Manhattan Bank, Pennsylvania Power and Light Company, U.S. Department of Energy, the Ministry of Energy and Resources of the Republic of Korea and others.

ACADEMIC BACKGROUND

- Ph.D., Engineering-Economic Systems, Stanford University (1986)
- M.S., Engineering-Economic Systems, Stanford Univer[illegible]'981)
- B.A., Mathematics, *cum laude*, Washington State University (1976)
- B.A., Economics, *cum laude*, Washington State University (1976)

PROFESSIONAL ASSOCIATIONS AND HONORS

Phi Beta Kappa, Omicron Delta Epsilon, Stanford Fellowship, American Mathematical Society, Mathematical Programming Society, SIAM.

SELECTED PUBLICATIONS

"Computing Solutions to Generalized Equilibrium Models by Successive Under-Relaxation," in *Economic Equilibrium: Model Formulation and Solution* (1985). "Integrated National Energy Planning -- A Case Study of the Republic of Korea," *The Energy Journal* (1984). "A Decision Analysis of the Appropriate R&D Strategy for Enhanced Oil Recovery," *Energy Systems and Policy* (1983). "Design of a Liquid Fuels Supply Model for U.S. Policy Analysis," *Energy* (1983). "A Methodology and Software System for Linking Economic Models," *Large-Scale Systems* (1983). "A Model of Technology Selection by Cost Minimizing Producers," *Management Science* (1982). "Problems in Characterizing Expectation Formation in Energy-Economy Models," in *Coal Models and their Use in Government Planning* (1982). *The DFI Computer Modeling Software (CMS)*, U.S. Department of Energy (1979). "Design of a Data Management System for Large-Scale Models," *Proceedings of the Second Lawrence Symposium on System and Decision Sciences* (1978).

DR. ROBERT A. MARSHALLA, Senior Associate

EDUCATION

Ph.D., Engineering-Economic Systems, Stanford University (1978); (economics, system analysis, decision analysis.)

M.A., Economics, Stanford University (1977).

B.S., Electrical Engineering and Computer Science, University of Illinois (1972).

AREAS OF PROFESSIONAL COMPETENCE

Decision analysis, applied economics, structural modeling, policy analysis.

Thirteen years experience in energy and natural resource consulting and research.

EXPERIENCE

Decision Focus Incorporated (1978-1986) - Selected Consulting Projects:

Gas Distribution Companies (Southern California Gas, San Diego Gas and Electric, National Fuel Gas, Elizabethtown Gas, Pacific Gas and Electric, Consolidated Edison, Niagara Mohawk). (1985-Present). Gas supply strategy consulting. Support of regulatory proceedings. Development and application of supply planning models.

Gas Research Institute. Project leader (1980-1986). Strategic institute-wide R&D planning. Quantitative market assessment of R&D technologies. Development of large and small scale gas market models.

Department of Energy and Oak Ridge National Laboratory. (1982, 1985-1986), Project leader, development of OPEC oil cartel model and analysis of future world oil prices.

Atlantic Richfield Company. Project leader, analysis of alternative energy investments using long-range model of energy markets and intertechnology competition.

Electric Power Research Institute. Project leader, analysis of the effects of a synthetic fuels industry on the electric power industry.

Chase Manhatten Bank. Project leader, development of energy system models for energy forecasting, industry analyses, and tax policy analyses.

U.S. Department of Energy. Assessment of the federal role with respect to fossil energy R&D and commercialization, including evaluation of economic incentives for new fossil fuel technologies.

Federal Energy Administration (1975-1976)

Principal analyst, development of an international energy model to analyze and forecast oil cartel pricing strategies.

Council on International Economic Cooperation. Principal analyst, interagency task force to evaluate intertemporal efficiency of alternative world oil pricing/consumption patterns.

Legislative Aide to U.S. Senator Ted Stevens (1974-1975)

Initiated and managed major OTA assessment of federal policy on mineral and energy resources on federal lands.

Performed legislative policy analyses for Senator Stevens concerning coastal zone management legislation.

SELECTED PUBLICATIONS AND PAPERS

Future World Oil Prices and Production Levels: An Economic Analysis, The Energy Journal, Vol 7, No. 1 (1986)

The Economic Benefits of R&D on Gas Supply Technologies, Gas Research Insights. Chicago: Gas Research Institute, January 1985.

An Analysis of the Benefits of Gas Technology R&D, (coauthor), Energy Systems and Policy, Volume 7, Number 3 (1983).

An Analysis of Cartelized Market Structures for Nonrenewable Resources, (New York and London: Garland Publishing, 1979).

An Analysis of Cartelized Market Structures for Nonrenewable Resources, in Proceedings Second Lawrence Symposium on Systems and Decision Sciences (1978).

Intertemporal Efficiency and the World Price of Oil—An Empirical Model, Annals of Economic and Social Measurement (Winter 1977).

OPEC and the Conservation of Oil Resources-Intertemporally Efficient Pricing, Federal Energy Administration Technical Paper (1976).

Welfare Analysis of Oil Price Decontrol, Federal Energy Administration Technical Paper (1976).

DR. ANNE E. SMITH, Senior Associate

SPECIALIZED PROFESSIONAL COMPETENCE

Environmental and regulatory policy analysis; economic modeling and analysis; decision analysis.

MAJOR CONSULTING PROJECTS AT DECISION FOCUS (1984-present)

- *Electric Power Research Institute.* Project leader; design and implementation of methods for assigning priorities for action among several environmental risk situations. Applications to solid waste contaminated sites owned by a major utility.
- *Department of Energy.* Project leader; development and demonstration of a model for assessing damages to painted surfaces under different exposures to acid deposition.
- *Ministry of Environment, Netherlands.* Project leader; development of group decisionmaking methodology to support environmental policymaking in the Netherlands.
- *Utilities Solid Waste Activity Group.* Project leader; risk analysis of cost and environmental effects of policy options for the management of underground storage tanks.
- *Electric Power Research Institute.* Project leader; design of methodology and interactive decision software to aid owners of underground storage tanks in management decisions.
- *Electric Power Research Institute.* Project leader; research management services.
- *Tennessee Valley Authority.* Development of commercial sector end-use market model to test the relative effectiveness of various TVA subsidy programs.
- *Gas Research Institute.* Development of quantitative procedure to predict market and nonmarket benefits of R&D strategies. Introduction of discrete choice models to incorporate noneconomic attributes into demand projections.
- *Electric Power Research Institute.* Scoping of potential groundwater contamination issues for the electric power industry.

MAJOR CONSULTING PROJECT AT SRI INTERNATIONAL (1981-1982)

- *Environmental Protection Agency.* Risk assessment of the health effects of ambient carbon monoxide, using physiological modeling and decision analysis.

OTHER PROFESSIONAL EXPERIENCE (1977-1984)

- *Independent Consulting* for European clients on environmental benefits evaluation, decision analysis, and environmental policy.
- *Environmental Protection Agency.* Economist in Economic Analysis Division of OPPE; policy analysis, economic impacts of environmental regulation, econometric models of the U.S. and of specific industries.

RESEARCH EXPERIENCE

- Used social welfare model to assess relative effectiveness of different environmental regulations under varying market structures.

COMMUNICATION EXPERIENCE

- Member, Working Group on Assessment of the Impact of Pollutants on the Marine Environment, Group of Experts on Scientific Aspects of Marine Pollution (GESAMP), United Nations, Bangkok, Thailand, 1984.
- Member, Working Group on Biological Aspects of Thermal Pollution of the Marine Environment, GESAMP, United Nations, Rome, Italy, 1983.
- Delegate, Ad-hoc Committee on Cost-Benefit Analysis, United Nations Economic Commission for Europe, Geneva, Switzerland, 1982.

TEACHING EXPERIENCE

- Assisted in organizing and teaching courses on The Economics of Public Policy and on Environmental Decisionmaking, Stanford University, 1982 and 1983.

ACADEMIC BACKGROUND

- Ph.D., Economics and Engineering-Economic Systems, Stanford University (1984).
- M.A., Economics, Stanford University (1981).
- B.S., Economics, Duke University (1977).

SELECTED PUBLICATIONS

"The Costs and Benefits of Sulphur Oxide Control," (with R. A. Barnes and G. S. Parkinson) *Journal of the Air Pollution Control Association* (1983). *Development of Decision Analysis Methodology for Health Risk Assessment* (with P. C. McNamee and M. W. Merkhofer), Environmental Protection Agency (1982).

LYNN I. DE LAIN, Associate

SPECIALIZED PROFESSIONAL COMPETENCE

Natural resource economics and management; economic and financial analysis; industrial organization; timber harvest scheduling.

MAJOR CONSULTING PROJECTS AT DECISION FOCUS (1987 - present)

- *Florida Power and Light.* Developed model to compare service vehicle fueling options.
- *General Telephone Service Corporation.* Developed customized reports for revenue pricing model.

OTHER PROFESSIONAL EXPERIENCE (1984 - 1987)

- *California Department of Forestry.* Developed model of forest and range land condition and use by land type and owner class.
- *University of California/U.S. Forest Service.* Integrated individual forest plans into state model with state and regional goals.

RESEARCH EXPERIENCE (1980 - 1987)

- *University of California, Berkeley.* Developed bidding model of U.S. Forest Service timber auction.
- *U.S. Forest Service.* Developed method for integrating timber harvesting and wildlife habitat goals as decision variables in linear programming models.
- *California Department of Fish and Game.* Analyzed effects of primary productivity and oxygen depletion on reservoir management strategy.

TEACHING EXPERIENCE (1983 - 1987)

- *University of California, Berkeley.* Taught undergraduate microeconomic theory, discounted cash flow analysis, forest management, and use of linear programming as resource management tool.

ACADEMIC BACKGROUND

- Ph.D., forest economics and management, University of California, Berkeley (expected June, 1988)
- M.A., economics, University of California, Berkeley (1986)
- M.S., forestry and resource management, University of California, Berkeley (1983)
- B.S., anthropology, University of California, Berkeley (1973)

PROFESSIONAL ASSOCIATIONS AND HONORS

- University of California Graduate Fellowship, American Economic Society, Society of American Foresters

SELECTED PUBLICATIONS

"Integrating Wildlife Habitat Goals in Forest Planning,", *Wildlife 2000* (1986), with Lawrence S. Davis. "U.S. Forest Service Timber Sales," submitted to *Natural Resources Journal* (1987), with J. Keith Gilless.

Department of Energy
Western Area Power Administration
Sacramento Area Office
1825 Bell Street, Suite 105
Sacramento, California 95825

In reply refer to

Ms. JoAnn C. Scott
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

FEB 18 1988
RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-189
RECEIPT DATE:
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AREA: DISTRICT
P-3

Dear Ms. Scott:

The Western Area Power Administration (Western) submits the following comments in response to Bonneville Power Administration's (BPA) December 15, 1987, request for comments on BPA's Revised Draft Long Term Intertie Access Policy (LTIAP). In summary, Western is pleased that the revised draft LTIAP recognizes the value of seasonal exchanges and seeks to accommodate potential joint venture transactions that can benefit the Northwest, BPA, and the Southwest. However, Western finds the mitigation measures on non-BPA firm sales and seasonal exchanges and the pro-rata allocation method for non-firm sales to be undesirable methods for protecting BPA from adverse revenue shortfalls. Also, Western feels very strongly that our current assured delivery for our contracts with Longview Fibre Company and the City of Tacoma must be preserved under the LTIAP. Our more detailed comments follow.

The Philosophy Underlying the Long Term Intertie Access Policy.

Western appreciates the regional and fiscal responsibilities incumbent upon BPA. In promulgating the predecessor policies and this LTIAP, BPA was and is confronted with the difficult task of balancing divergent views while remaining faithful to the requirements of its organic statutes. Past policies proposed to control market forces rather than to let the market remain dynamic. Western has commented throughout the process that we support BPA's desire to meet its fiscal obligations, but that we disagree with BPA's chosen method to accomplish this objective.

Western continues to be particularly concerned with the "market control" theme of the LTIAP. A recent relevant judicial decision allows BPA to reserve to itself intertie capacity over which it can make sales. In this LTIAP, BPA proposes mitigation measures which Western believes may move beyond those parameters. Western firmly believes that these mitigation measures could sacrifice the more significant long term goal during the next twenty to thirty years of cooperative resource planning among the Northwest, Southwest, and Midwest regions to best meet the demands of each region by making optimum use of existing and future resources while providing revenue stability for the regions. We feel that other methods that address more equitable sharing of

the benefits as well as losses would enable BPA to meet its repayment obligations while better serving the entire western region of the United States.

Mitigation.

The January and February 1988 meetings among the Northwest, Southwest, and Midwest interested parties made it clear that the proposed mitigation measures for Assured Delivery and Formula Allocation would be frustrating to power schedulers and dispatchers to implement, cumbersome to administrate, and consequently, make the measures the subject of differing interpretations and ongoing contention. Western proposes the following alternatives:

1. Firm Sales and Seasonal Exchange Deliveries (Section 4(d)(4)(A). BPA proposes that any deficiency resulting once a utility's assured delivery amount is deducted from its Formula allocation under Condition 1, be met by purchases from BPA. Western proposes that a utility be able to buy from any utility, including BPA, that has a surplus.

2. Seasonal Exchange Returns (Section 4(d)(4)(B)(i) and (ii)). BPA proposes that the cash-out provisions of an exchange contract be inoperative during Condition 1 or 2, and that the return be to either the California-Oregon border (COB) or the Nevada-Oregon border (NOB). This action presents the California utility returning the energy (exchanger) with two options: (1) to generate and return energy to the exchange; or, (2) if cheaper, to purchase the energy from a third party northwest utility for return to the exchangee. The second option would require the third party to deliver the energy first to COB or NOB and then to the exchangee rather than directly to the exchangee. We believe this additional wheeling and resultant losses could make this option more expensive, causing the exchangor to generate and return energy during a time when the Northwest does not need the energy, in effect, exacerbating spill conditions. We propose that the double-wheeling requirement be removed.

3. Mitigation Surcharge as an Option to Operational Mitigation. The mitigation surcharge option was raised at the January 27, 1988, Public Session. We do not here address the range of dollars estimated to be BPA's revenue loss due to firm sales and seasonal exchanges. We believe that the development of a surcharge to be applied to contracts executed after the adoption of the LTIAP is best afforded through an independent rate-making process. The concept, however, of determining BPA's lost revenue and converting it to a surcharge is acceptable as an option to the operational mitigation measures proposed by BPA for the reasons stated above. Furthermore, the surcharge will provide planning and negotiating certainty as to the cost of the resource.

4. Formula Allocation (Section 5). The proposed formula allocation method for Condition 1 allocates intertie capacity to the available market, subject to a scheduling utility's "hydro cap." The option presented at the January 27, 1988, session although still containing the true-up mechanism, appears to be somewhat more acceptable in that the "hydro cap"

is eliminated and the allocation is calculated based on the available intertie rather than on the market. However, we have not yet verified this supposition through any studies. Western proposes that BPA also pursue, with all parties, the share-the-savings option discussed at the February 3, 1988, session by including permissive language in the LTIAP that would allow the adoption of this concept.

Assured Delivery for Longview Fibre and Tacoma Contracts.

The LTIAP does not address assured delivery for these two contracts. These contracts were executed well in advance of the adoption of the Near Term LTIAP and were granted assured delivery without mitigation. As stated in our previous comments, unless BPA grants assured delivery for the duration of the terms of these contracts, Western may find it economically necessary to evaluate the termination of these contracts, an action which would exacerbate the surplus condition of the Northwest and offset power sales made by BPA to Tacoma and Longview Fibre Company. We believe that, if BPA finally decides to adopt some form of mitigation, it should only apply prospectively and not harm the benefits of specific Pacific Northwest and Pacific Southwest Parties' purchase power agreements executed prior to the adoption of the LTIAP. Western offers its active assistance to BPA on this matter so that it can continue to provide assured delivery without mitigation for these contracts.

Seasonal Exchanges, Extra-Regional Access, and Joint Ventures.

Western commends BPA for its recognition of seasonal exchanges. Such exchanges will benefit both regions as they make for the efficient use of resources. Western requests however, that BPA remove the 440 MW limit for seasonal exchanges. We believe that BPA is afforded sufficient protection via the mitigation measures in Section 4(d)(4) absent the 440 MW limit.

Western appreciates the listing in Exhibit C of its contract with BPA for transmission service of power purchased by Western from the Basin Electric Cooperative (Basin). In our previous comments, we stated that Western committed funds to the construction of the Miles City Converter Station in Montana and to other transmission facilities necessary to provide a firm transmission path for power to BPA from the Midwest. We note that BPA has included a proposal, Joint Ventures in Section 4 (c)(I), to possibly allow such transactions to continue. We support the Joint Venture proposal since it would allow recoupment of funds spent by Western on transmission facilities through economically advantageous resource purchases to support Western's Central Valley Project loads from Midwest purchases, an obligation which BPA has recognized in the past.

Pre- versus Post- Load/Resource Balance.

The LTIAP addresses the myriad issues facing BPA and the Northwest in the context of the near term, but provides no definition of BPA's intent once the region becomes energy deficient or reaches load/resource balance. Perhaps the intent is to adopt a policy, let it operate and evolve, and change it as circumstances warrant change. Western suggests this LTIAP set forth some

general guidelines and direction to facilitate planning by others under these conditions, or absent that, make a commitment to address this issue at some certain future date.

Term of Assured Delivery.

Section 2(b) of the predecessor policy, the Near-Term Intertie Access Policy, provided for a maximum of 20 years of assured delivery for new firm-power contracts. The LTIAP is silent on this provision. Western recommends that BPA enter into contracts to provide for assured delivery of any firm-power or seasonal exchange contracts and that such contract which provides assured delivery under the LTIAP not be subject to modification or conformance with any successor LTIAP except as mutually agreed. Such contracts should be "grandfathered" under a modification of the LTIAP, or be granted continued assured delivery even if the LTIAP is terminated. Granting assured access should be viewed as equivalent to a contractual right, coextensive with the terms of the firm-power contract. Further, grandfathering provides certainty in long-term resource planning.

Western remains committed to assist BPA in the finalization of this important policy in order to balance the respective needs of the affected regions. Any questions or comments can be directed to Eric Wong at (916) 978-4453.

Respectfully Submitted,

David G. Coleman
Area Manager

NCPA A Public Agency

Northern California Power Agency

180 Cirby Way, Roseville California 95678

MICHAEL W. McDONALD
General Manager

(916) 781-3636

RECEIVED BY BPA
PUBLIC INVOLVEMENT
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FEB 1 3 1988
AREA: DISTRICT
P.3

February 18, 1987

Ms. Teresa Cunningham Byrnes
Acting Public Involvement Manager
Bonneville Power Administration
905 NE 11th Avenue
Portland, OR 97232

Dear Ms. Byrnes:

SUBJECT: Long-Term Intertie Access Policy (LTIAP)

The Northern California Power Agency (NCPA) is a joint action agency and electric power wholesale supplier to thirteen California municipal utilities. NCPA's members are the cities of Alameda, Biggs, Gridley, Healdsburg, Lodi, Lompoc, Palo Alto, Redding, Roseville, Santa Clara, Ukiah, the Plumas-Sierra Rural Electric Cooperative, and the Turlock Irrigation District.

NCPA, on behalf of its members, constructs, owns and operates geothermal, hydroelectric, and combustion turbine generating plants. NCPA also purchases wholesale power to serve its members' load. NCPA is currently experiencing and forecasting a 3 percent annual growth in electric demand, about double California's statewide growth levels. To help meet this increased demand, NCPA members are participants in the California-Oregon Transmission Project (COTP).

NCPA purchased over $1,000,000 of wholesale power from the Bonneville Power Administration (BPA) and purchased about $1,500,000 of power from other Pacific Northwest suppliers (e.g., Portland General Electric and Washington Water Power Company) in 1987. With improved transmission access, NCPA could have significantly increased those purchases. In addition, NCPA has contracted with BPA for a 25 megawatt firm power purchase for 1988 and 1989. This purchase is one of the few firm power sale contracts that BPA has with a California utility.

NCPA is forecasting a 3 percent annual growth rate in electric demand. The Pacific Northwest is a likely potential supplier of firm capacity and energy for NCPA. Properly structured, BPA's LTIAP provides an opportunity for NCPA to continue a mutually beneficial relationship with utilities in the Northwest. However, NCPA does have several concerns with the December 15, 1987 draft. Our concerns center on the assured delivery provisions in the LTIAP and are as follows:

1. Decrement Provisions for Assured Delivery

   In the LTIAP, BPA states that "the LTIAP as revised is designed to provide greater specificity to give utilities in the Northwest and California with greater planning certainty". NCPA is concerned that the LTIAP cannot provide NCPA "with greater planning certainty" with the many decrement provisions for assured delivery contained in the LTIAP.

   A. Specifically, NCPA cannot agree with the "protected areas" provision. This provision states that if a Northwest utility proceeds to acquire a license or purchases power from a hydro project within the protected area, BPA will decrement said utility's Intertie access by an amount equal to the hydro project's rating. This provision also appears to apply to existing projects in the protected area up for FERC relicensing, as well as if a utility is forced to purchase such a project under PURPA.

      NCPA is concerned that the protected area provision places considerable risk on California utilities and creates an element of uncertainty that is generally unacceptable to NCPA. The proposed LTIAP appears to give BPA unilateral ability to cancel a firm power supply contract by denying access to the Intertie. Under this provision, NCPA could find itself in a situation where a power purchase contract could no longer be honored

by a Northwest utility because of that utility's involvement in a hydro project in a protected area, even though the hydro project may be completely unrelated to the contract with NCPA. This would clearly leave NCPA in an unacceptable situation. This risk is too great and inappropriate for NCPA and other California utilities to bear. NCPA seeks firm power supply contracts and associated transmission that can be counted on and that contain shared long-term benefits. NCPA, therefore, feels that the protected area provision of the LTIAP should be eliminated or modified so it does not discourage mutually beneficial transactions.

By letter dated February 11, 1987, BPA states that utilities' concerns with the protected area provision "may have been overstated". BPA argues in this letter that the utility regulators in the Northwest will most certainly consider the protected area provision in PURPA and other decisions. BPA has stated that this belief provides sufficient security. While NCPA believes that this may provide security to the Northwest utilities, these arguments do not appear to address NCPA's concerns. Conceivably, there could arise a situation in which a regulator could surmise that it would be beneficial for the subject Northwest utility to buy a PURPA facility in a protected area even when taking the LTIAP into account. In this event, what recourse would NCPA have? The power purchase contract that NCPA relied on to meet load would disappear due to the LTIAP.

There are, no doubt, valid concerns of BPA surrounding the protected area provision in the draft LTIAP. BPA has invested heavily to mitigate fish and wildlife impacts. In the LTIAP, BPA has offered FERC relicensing

assistance to a licensee of an existing project located within the protected area. Possibly, BPA could extend this assistance to new projects in the protected area or in some way remove the extraordinary risks being placed on California utilities. NCPA believes that the LTIAP is an inappropriate forum to deal with Northwest resource development issues and, hopefully, BPA can find a more appropriate forum or mechanism to effectively deal with this important issue.

B. Also, NCPA cannot agree with the "use your own first" proposal in Section 3(d). Apparently, BPA intends to decrement a utility's assured delivery if said utility acquired an ownership or contractual right to any future Intertie transmission. Not only does this section make it near impossible for utilities to participate in new Interties, but it places considerable risk on California utilities. NCPA's concerns with Section 3(d) are identical to those stated for the protected area provision. In general, any assured delivery decrement is unacceptable to NCPA. These Intertie decrements place <u>all</u> the risk on California utilities. The possibility of a decrement essentially kills any future long-term power transactions. NCPA requests that BPA remove all the assured delivery decrement provisions in the LTIAP.

2. <u>Assured Delivery for Extraregional Utilities</u>

NCPA is concerned that BPA is offering limited assured delivery to Northwest utilities and not to extraregional utilities. It appears to NCPA that once BPA has reserved sufficient Intertie for its own needs, that surplus Intertie should be available to all interested parties.

In conclusion, NCPA plans to continue a mutually beneficial relationship with utilities in the Northwest. NCPA encourages

BPA to adopt a LTIAP which benefits both regions and spreads risks equitably. NCPA also encourages BPA to continue to seek a cure for the anticompetitive Intertie problem. NCPA believes that the LTIAP could move our respective regions into a different market situation which maximizes the benefits of the Intertie.

Sincerely,

MICHAEL W. MCDONALD
General Manager

RL/fl
cc: Roger A. Fontes
W. Kent Palmerton
Rob Lamkin

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-191
RECEIPT DATE:
FEB 19 1988
AREA: DISTRICT

UTAH POWER & LIGHT COMPANY
1407 WEST NORTH TEMPLE STREET
SALT LAKE CITY, UTAH 84140

PLANNING & ENGINEERING DEPARTMENT
COMMERCIAL UTILITIES DIVISION
ROOM 3312
(801) 220-4293

February 17, 1988

Donna Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212-0999

Dear Ms. Geiger:

Revised Draft Long-Term Intertie Access Policy

Utah Power & Light Company (Utah) supports the comments submitted by Pacific Power & Light Company, the Intercompany Pool and the Pacific Northwest Utilities Conference Committee. In addition, Utah offers the following comments:

Assured Delivery for Intertie Access

Exhibit B

The current Exhibit B determination of each utilities' Intertie capacity available for Assured Delivery excludes Utah. Because a portion of Utah's service territory is geographically located in the Northwest region, we believe a portion of Utah's average firm supply should also be considered regional.

The attached table calculates Utah's Exhibit B Assured Delivery amount of 39 average megawatts based on our understanding of the current methodology employed for the preparation of Exhibit B.

We appreciate the opportunity to provide input on the Long-Term Intertie Access Policy.

Sincerely,

J. Lynn Rasband, Manager

JLR/jj

UTAH POWER & LIGHT COMPANY

Exhibit B Calculation

avMW

(1988-89)

	REGION	NON-REGION	TOTAL**
SYSTEM LOAD:	320	1590	1910
FIRM SALES:		52	52
Requirements	320	1642	1962
RATIO:	16.3%	83.7%	100%
RESOURCES:			2415
Less Maintenance			-214
Net Resources			2201
ENERGY BALANCE			239
EXHIBIT B		239 X 16.3% = 39	

*PNUCC Northwest Regional Forecat - March 1987.
**See attachment: Pacific Power & Light Company
Exhibit 3.10
P.S.C.U. Case No. 87-035-27

Department of Water and Power the City of Los Angeles

TOM BRADLEY, Mayor

Commission
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JACK W. LEENEY, *Vice President*
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NORMAN E. NICHOLS, *Assistant General Manager - Power*
DUANE L. GEORGESON, *Assistant General Manager - Water*
DANIEL W. WATERS, *Assistant General Manager - External Affairs*
NORMAN J. POWERS, *Chief Financial Officer*

February 18, 1988

RECEIVED BY BPA
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AREA: DISTRICT
P.3

Ms. Jo Ann C. Scott
Public Involvement Manager
Bonneville Power Administration
905 N. E. 11th Avenue
Portland, Oregon 97232

Dear Ms. Scott:

Revised Draft
Long-Term Intertie Access Policy

The Department of Water and Power of the City of Los Angeles (Los Angeles) submits the following comments on the Bonneville Power Administration's (BPA) revised draft Long-Term Intertie Access Policy (LTIAP).

Although the language of the revised draft LTIAP is considerably changed from the draft issued on October 22, 1986, Los Angeles cannot find any substantiative improvement over the previous draft or, for that matter, over any of BPA's recent Intertie Access Policies. The revised draft LTIAP, like its predecessors, is not only anticompetitive, but continues to discourage the benefits of long-term firm transactions in favor of spot-market sales and possible short-term gain. Accordingly, Los Angeles sees no need to repeat our fundamental objections at this time. Instead, Los Angeles adopts by reference all previous comments submitted since publication of the proposed Near-Term Intertie Access Policy in the Federal Register on February 15, 1984.

Regardless of our disappointment with the revised draft LTIAP, Los Angeles remains interested in maintaining a viable energy trade relationship between the regions and desires to work constructively toward mutually beneficial results. Thus, the following comments will address new issues raised in the revised draft LTIAP.

111 North Hope Street, Los Angeles, California 9 *Mailing address* Box 111 Los Angeles 90051
Telephone (213) 481-4211 *Cable address* DEWAPOLA

Mitigation

The concept of "mitigation", by which an entity seeking assured access to the Intertie must first agree to compensate BPA for anticipated lost revenue, represents BPA's ultimate denial of any obligation to provide transmission service to others. As stated in previous comments, Los Angeles believes that such action is neither appropriate nor legally justifiable under Section 6 of the 1964 Northwest Preference Act, 16 U.S.C. Section 837e. All objections notwithstanding, it appears certain that BPA will attempt to impose access fees through the "operational" mitigation measures set forth in the revised draft LTIAP, some form of "mitigation surcharge", or other mechanism.

In tbe revised draft LTIAP, BPA made available 361 MW of Intertie capacity for firm sales and 440 MW for exchanges. While it appears that BPA has liberalized the policy by allowing exchanges and relaxing the requirement for compliance with the Administrator's Power Marketing Program, a closer reading demonstrates that the revised policy is even more restrictive than BPA's previous offering. Provisions such as decrementing "assured delivery" in the event a nonfederal seller acquires either additional north-south transmission or hydroelectric resources within a BPA defined "protected area" coupled with uncertain mitigation costs, virtually assure that new long-term firm transactions will not take place.

The major problem in the revised draft LTIAP is the high level of uncertainty of both cost and continuing supply facing buyers in need of Intertie transmission capacity. Los Angeles is not willing to enter into long-term power purchases where either the "firmness" or the costs of the transaction are subject to future constraints by BPA.

One proposal raised during the latest round of public comment meetings suggests that BPA substitute a fixed charge or "mitigation surcharge" for the "operational" mitigation measures proposed in the revised draft LTIAP. Adoption of this mechanism would remove most of the financial uncertainties facing potential buyers and sellers. Los Angeles still believes that imposition of any fees in excess of cost based transmission service rates violates BPA's obligation to provide Intertie access to nonfederal utilities.

To eliminate the uncertainty of continued supply, BPA must abandon all proposals to decrement "assured delivery", once granted, for any reason, including acquisition of additional north-south transmission facilities or the acquisition of hydroelectric resources located in "protected areas".

Fish and Wildlife Protection

BPA has proposed to reduce the amount of power that a Pacific Northwest (PNW) utility is permitted to transmit over the Intertie, under the "assured delivery" provision and the "formula allocation" provision, if the PNW utility builds, owns or acquires the output from a hydroelectric project that has been built in a "protected area". Such a proposal is unacceptable to Los Angeles since this provides no assurance that its firm power contracts executed with a PNW utility, utilizing such transmission capacity, will be a reliable long-term source.

Los Angeles does not take issue with BPA's statutory obligation to protect and enhance fish and wildlife; however, Los Angeles does not believe that the method BPA has outlined in the revised draft LTIAP meets their goal to protect fish and wildlife. Using the revised draft LTIAP to protect fish and wildlife simply does not result in the desired effect -- the protection of fish and wildlife. Such protection would be more effective if it were addressed on a regional basis within the PNW and not placed on the Intertie users. One possible methodology to deal with an offender is to deny access to BPA's main transmission system.

800 MW Limitation on Assured Delivery

BPA's initial draft proposal of the LTIAP proposed to limit "assured delivery" to the amount of firm surplus energy as shown in the policy's final Exhibit B. The revised draft LTIAP proposes the addition of 440 MW of "assured delivery" for exchange contracts executed between California and nonfederal PNW utilities. The question still remains -- why did BPA limit exchange capacity to a meager 440 MW? During the LTIAP public meetings, BPA's staff, in answer to probing questions, developed many different scenarios to explain the 440 MW exchange limitation; however, it appears that BPA did not perform a specific analysis, but may have based its decision to limit exchange capacity to 440 MW by simply taking an arbitrary 800 MW and subtracting the Exhibit B quantity of 361 MW.

Risk to BPA

It appears that BPA has determined that the most profitable use of the Intertie is for the sale of economy energy in the spot market. The revised draft LTIAP is discriminatory to long-term firm sales and exchanges while offering further enhancements to the current nonfirm formula allocation scheme; such an enhancement occurs when BPA allocates Intertie capacity to PNW utilities based on what BPA perceives is the size of the California market, rather than BPA allocating Intertie capacity. Los Angeles believes that BPA's proposed market allocation scheme

builds on the concept of formula allocation and is designed specifically to capture the maximum benefit from individual economy transactions.

Los Angeles cannot ignore BPA's strategy which places a greater emphasis on near-term economy energy sales in lieu of mutually beneficial long-term firm sales. Such a strategy obviously will affect Los Angeles' planning for its current and future firm power needs from the PNW. If Los Angeles is to purchase long-term capacity or energy from PNW suppliers and the Federal portion of the Intertie is required for delivery, there must be assurance that the policy will support long-term firm transactions and that the policy will not be changed by BPA to suit their ever changing revenue requirements. Los Angeles has other long-term resource options which do not include the PNW and as Los Angeles purchases additional base load generation, the quantity and price Los Angeles is willing to pay the PNW for nonfirm energy will continue to decrease since the incremental cost of energy from new generation resources makes PNW nonfirm energy less economical.

Los Angeles still maintains that BPA has no justification to implement any policy that inhibits free-market transactions. Since it appears that BPA will implement a final LTIAP, Los Angeles remains hopeful that BPA will incorporate these comments and all our previous comments into the final Intertie policy.

Sincerely,

DAVID J. MAHONEY
Assistant Engineer of System Development

PUGET POWER

RECEIVED BY BPA
PUBLIC INVOLVEMENT
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RECEIPT DATE:
FEB 19 1988
AREA: DISTRICT
T (OS)

February 19, 1988

Ms. Jo Ann C. Scott
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Re: Bonneville Power Administration's Revised Draft Long-Term Intertie Access Policy

Dear Ms. Scott:

Puget Sound Power & Light Company ("Puget") submits the following additional comments on the Bonneville Revised Draft Long-Term Intertie Access Policy ("draft LTIAP"). Puget's comments filed February 5, 1988 in this proceeding address many of the points raised by other comments. Puget's February 5th comments remain applicable and are not reiterated herein. However, there are several points upon which we wish to elaborate.

The Western Public Agencies Group ("WPAG") states on page 1 of its comments that the "original justification for the Intertie was to ensure that BPA would have sufficient revenues to pay back the large federal debt incurred to build the Northwest hydro facilities." Several of the other commentors advance similar suggestions. In support of its contention, WPAG cites the legislative history of the Regional Preference Act.

However, the particular portion of legislative history cited not only refers to BPA's financial considerations as a justification for the Intertie, but also features prominently the benefits of an interconnection between the power systems of the Pacific Northwest and the Pacific Southwest as making the Intertie "highly desirable from the standpoint of both

regions." H.R. Rep. No. 590, 1964 U.S. Code Cong. & Ad. News at 3343. House Report 590 goes on to state that:

> The Pacific Northwest presently has, and will continue to have for some time, surplus hydroelectric capacity and energy during some months of the year which could help to meet peakloads in the Pacific Southwest and conserve fuel which would otherwise be used for steam-electric generation. Also, in the years to come, offpeak steam generation in the Pacific Southwest could be utilized to firm up the hydroelectric capacity of the Pacific Northwest and convert what would otherwise be secondary power to firm power. In addition, the diversity of loads would permit large savings in steamplant investment to each region.

Id. The Intertie was constructed on the basis of considerations far broader than enhancement of Bonneville's financial position.

As noted in Department of Water and Power of the City of Los Angeles v. BPA, 759 F.2d 684 (9th Cir. 1985) ("LADWP"), the legislative history of the Regional Preference Act explains that BPA

> may not decline to enter into [agreements to transmit other utilities' power] merely because [it] may have energy available for sale to serve the same loads. H.R. Rep. No. 590; 1964 U.S. Code Cong. & Ad. News at 3350.

759 F.2d at 692. BPA clearly is prohibited from refusing to make Intertie capacity available merely because BPA may have power to sell, even to the same customer.

WPAG, and perhaps other commentors, apparently assert that Bonneville's statutory obligations are violated by formula allocation of Intertie capacity for nonfirm transactions (e.g., the draft LTIAP's Formula Allocation procedures). WPAG claims at page 14 of its comments that BPA's Formula Allocation proposals "do not comport with" BPA's statutory obligations. WPAG thus appears to take the curious position that the pro rata allocation to BPA of Intertie capacity for nonfirm transactions, which has existed under the Exportable Energy Agreement since essentially the beginning of the Intertie, is unlawful. Yet BPA entered into the Exportable Energy Agreement in originally implementing the Intertie arrangements contemplated by the Regional Preference Act. It cannot now be argued that such an allocation was unlawful at the outset.

The Direct Service Industries, Inc. ("DSI's") in their comments at page 3 quote part of a paragraph in LADWP, 759 F.2d at 691, which addresses the Bonneville Project Act, but do not include the conclusion of that paragraph:

> Consequently, allocation of Intertie use is not inconsistent with BPA's statutory authority to use the federally-owned portions of the Intertie in any manner consistent with "transmitting electric energy, . . . from [BPA] to existing and potential markets . . . ." 16 U.S.C. § 832a(b).

759 F.2d at 691.

The comments of the DSI's at page 4 further state that Section 9(i) limits BPA to "providing transmission services over the Intertie which 'are not in conflict with [BPA's] other marketing obligations.'" Section 9(i) of the Regional Power Act, however, does not affect the general obligations of Bonneville to provide transmission. As indicated in Puget's February 5 comments, the Regional Power Act clearly reaffirmed in Section 9(d) BPA's obligations under existing law to provide transmission; BPA's obligations accordingly are not qualified by Section 9(i) or any other provisions of the Regional Power Act. Indeed, Section 9(d) states that it is in "addition to the directives contained in subsections [9](i)(1)(B) and [9](i)(3)".

Section 9(i) relates to BPA's obligations upon request of its customers to acquire power for such customers, to dispose of their power or to assist them in the disposal of their power (such as power from WPPSS 4 and 5). Section 9(i) in its entirety relates only to service which BPA provides in connection with requests under Section 9(i). It does not apply to BPA transmission of a customer's power, unrelated to requests for BPA's acquisition of power for such customer or disposal or assistance in disposal of such customer's power pursuant to Section 9(i).

This is supported by language in the legislative history of the Regional Power Act:

> Section 9(i) sets forth additional services BPA is to provide its customers, at their request and expense, with respect to power sales and purchases of their own. . . .

H.R. Rep. 96-976, II Interior, at 56. In short, Section 9(i) does not limit BPA's pre-existing obligations to

provide access to the federal transmission system. Section 9(i)(3) creates only "a limited and contingent priority on BPA's available services for the marketing of power from projects currently under construction in the region, should BPA decline to acquire these resources." Id.

The Northwest Power Planning Council states at page 2 of its comments that "resources consistent with the fish and wildlife measures of the power plan and the fish and wildlife program should not be denied access to the intertie on fish and wildlife grounds, and conversely, resources not consistent should not have access to the intertie." (emphasis added.) This statement should not and cannot be construed to apply to resources which are not acquired by BPA; the plan by statute is not applicable to resources other than those acquired by BPA. E.g., Section 4 of the Regional Power Act. As also discussed in Puget's February 5 comments, non-federal resources are already closely and extensively regulated. The Intertie was never intended as a lever for use in applying the plan to resources not acquired by BPA.

As stated in our initial comments, Bonneville is statutorily obligated to provide Northwest utilities access to available Intertie capacity on a fair and nondiscriminatory basis and at rates based on the cost of the transmission facilities. A number of the commentors seem to confuse (i) "loss" in revenues which Bonneville assertedly may incur with (ii) the rates which BPA may lawfully charge for providing transmission on the Intertie. As stated in our initial comments, Bonneville is required to base the charges for transmission on an equitable allocation of transmission system costs. 16 U.S.C. § 838h. It is a violation of Bonneville's statutory obligations to impose charges for use of the Intertie that are not equitable and are not based on the costs of the Intertie transmission facilities.

Puget appreciates the opportunity to submit these comments in response to other parties' filings. (This letter sets forth a number of the areas in other comments which are in error or with which we disagree. However, it is not an exhaustive and specific list of such areas in other comments.) We look forward to further discussions of these issues with Bonneville as part of the public comment process on the draft LTIAP.

Very truly yours,

PUGET SOUND POWER & LIGHT COMPANY

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February 19, 1988

Ms. Jo Ann C. Scott
Public Involvement Manager -- ALP
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97232

Dear Ms. Scott:

These comments are submitted on behalf of the Public Generating Pool (PGP). This material constitutes our February 19th comments. We are generally supportive of the draft Intertie Access Policy (Policy). We do, however, want to share our reactions to other parties' input.

Our comments are detailed in the attached material. We have organized our comments into four sections, including: (1) Assured Delivery; (2) Formula Allocation; (3) Mitigation; and, (4) Fish and Wildlife Protection.

We appreciate the thoroughness with which BPA has approached this project. Good efforts have been made to develop a balanced policy. Thank you for the opportunity to comment.

Very truly yours,

Jerry Garman by mr
Jerry Garman, Managing Agent
Public Generating Pool

I. Assured Delivery

A. Level of Assured Delivery (Firm Sales)

1. PGP Position.

The PGP has endorsed BPA's decision to limit the Assured Deliveries to 800 MW's because it demonstrates a commitment to the regional partnership mandated by Congress and essentially leaves BPA revenue neutral. We have endorsed this level with the caveat that BPA reassesses this amount, in order to determine the appropriateness of increasing this level, upon development of additional intertie facilities and when BPA reaches load/resource balance. We oppose the Policy (Section 4(d)(2)(B)(i)) which suggests that BPA will revise, at its own discretion, Assured Delivery amounts downward. This assessment should also consider the appropriateness of allowing a conversion of a firm sale to an exchange in order to maintain compliance with the regional preferences provisions embodied in P.L. 88-552.

Member utilities have submitted comments which specifically address existing contracts which are, in effect, potential Joint Venture or firm displacement--like transactions (the Longview Fibre Company contract with WAPA; the Tacoma City Light contract with WAPA). In addition, we have suggested that BPA revise its Assured Delivery calculations for accuracy by including EWEB's Willamette steam plant and Tacoma City Light's Steam Plan #2.

2. Other Parties' Positions

Intercompany Pool

The ICP claims that the 800 MW Assured Delivery amount is too limiting and that BPA should set aside up to 1500 MW because there is greater demand for such. It has not been demonstrated that this limit should be increased at this time. BPA, however, should reassess and increase this amount if determined to be appropriate based on future events.

Nongenerating Public Utilities

This group has indicated that the Assured Delivery limit (800 MW) should be reassessed and reduced if

the DC upgrade or 3rd AC line are not realized otherwise BPA may be harmed economically. This is not necessarily correct, especially in the case of the DC upgrade. The Policy was drafted with the presumption that the DC upgrade would occur.

Other Parties' Positions

Numerous regional and southwest utilities have indicated interest in access in order to consummate "potential" arrangements or to lay claim that access on other transmission corridors was overstated (PP&L). The PGP does not agree that the Assured Delivery figure should be changed in order to accommodate these "yet to be finalized" transactions. They are speculative.

If firm sales have not yet been consummated then the Joint Venture and firm displacement-type transactions which utilize federal access should be pursued. If these potential transactions are exchanges, then according to the Policy, there is sufficient time between now and February, 1989 to consummate such.

B. Assured Delivery (Exchanges)

1. PGP Position

The PGP supports the inclusion of exchange transactions in Assured Deliveries. Exchanges are beneficial to the Northwest and Southwest regions for environmental, economic and efficiency reasons.

2. Other Parties' Positions

Western Public Agencies Group

This group comments about the importance of having Assured Delivery for future generating resources as well as conservation and planned load reductions because these utilities have minimal investments in generating resources. This group is concerned that "this proposed policy is to establish a monopoly over the portion of the Intertie dedicated to nonfederal transactions in favor of existing generating utilities."

Again, it is inappropriate for BPA to modify Assured Delivery calculations based upon potential, future resources, conservation transfers or planned load reductions. These are presently speculative. We do, however, encourage BPA to modify the Policy so that it includes periodic reassessments of the Assured Delivery calculation and particularly, include the possibility of increasing this amount upon determination that sufficient Intertie capacity for additional nonfederal transactions is available. We do not support the concept of providing Assured Delivery for planned load reductions or conservation transfers. The PGP, in concert with BPA and the Regional Council staff, has studied this issue and seriously question the need to formalize these types of transactions in the Policy.

San Diego Gas and Electric
Pacific Gas and Electric
Regional Power Planning Council

These utilities have indicated that they are interested in more diversity than offered by seasonal exchanges. The PGP agrees that the Seasonal Exchange concept should be broadened in order to provide the necessary flexibility and accommodate a greater application of exchanges.

The Council has endorsed exchange transactions and it is assumed that endorsement for more than seasonal exchanges exists if other exchange-like transactions prove beneficial for the Northwest and Southwest regions (See West Coast Analysis).

C. "Use Own First" Philosophy

1. PGP Position

The PGP supports the intent of the "use own first" philosophy regarding the determination of nonfederal access on the currently existing Intertie. We recognize the appropriateness of allowing "swaps" between AC and DC access and encourage BPA to utilize this option when appropriate.

2. Other Parties' Positions

Intercompany Pool

The Pacific Northwest private utilities have vociferously opposed this philosophy in ICP comments as well as individually. This opposition is based upon the opinion that nonfederal access will not be made available even if a utility with ownership or contractual transmission rights to a utility in the Southwest cannot consummate a sale with that utility.

We understand and recognize this concern. However, we are not satisfied that the ICP's proposed language on this issue will fully address our concern about accountability. We recommend that BPA require sufficient information from utilities with ownership or contractual transmission rights to a utility in the Southwest which indicates that a sale, at any reasonable price, cannot be consummated. Upon determination that a sale cannot be made, then access to federal transmission should be permitted.

II. Formula Allocation

A. Hydro Cap

1. PGP Position

The PGP endorses the use of the Hydro Cap as the basis for determining Formula Allocation. The Hydro Cap may not always accurately reflect surplus energy figures, but it is reasonable and the best available proxy.

2. Other Parties' Positions

Intercompany Pool

We have carefully reviewed the private utilities' positions which created use of Declarations for determining Formula Allocations. These utilities continue to question the appropriateness of the Hydro Cap and claim that it is irrelevant, difficult to administer, and confuses the cost-based rate arguments for nonfirm energy.

The PGP has attempted to devise an accurate, easy to administer alternate method using Coordination Agreement data. Calculating a utilities' surplus, is not, however, cut and dry -- some regional utilities are not signators to the Agreement, these data do not account for storage returns, nonfirm purchases, resources not declared to Coordination, etc. Our conclusion is that an alternative proxy based on economic energy which is surplus to a utility's needs is appropriate if the Hydro Cap is not adopted.

Governor Goldschmidt

We recognize the validity of the suggestion made by Governor Goldschmidt who recognizes the PGP's concern and suggests that Formula Allocations be based upon surplus energy which is marketable -- or resources whose running costs are equal or less than the then-applicable BPA nonfirm energy rate.

We recognize that BPA's Policy must be administered with some ease. Unfortunately, we are concerned that surplus energy declarations are often manipulated to the detriment of BPA and other nonfederal utilities. As an example, we oppose inclusion of uneconomic combustion turbines in a utility's declaration. In order to enforce this proposal, we suggest that BPA utilize the concept embedded in the Exportable Agreement, and request, on an occasional basis, documentation which identifies the resource composition of the surplus energy declaration.

B. Allocation based upon the SW market or Intertie.

1. PGP Position

The PGP has commented to BPA that Condition 1 allocations may occur in two steps. Therefore, if BPA's assessment of the Southwest market is less than the Intertie, the allocation is made first at BPA's applicable rate. Then, BPA should allocate remaining Intertie access based upon markets available through BPA's market expansion rate.

2. Other Parties' Positions

Pacific Gas and Electric
Pacific Northwest Generating Company
Intercompany Pool

These commenters have expressed opposition to the concept of allocating to the Southwest market. The underlying concern appears to be the discretion that BPA may exercise in determining the size of the market. This also concerns the PGP, especially if inaccurate estimates of the Southwest market force Northwest utilities to buy additional BPA power.

The PGP does not support allocation based on the Intertie because this approach will encourage undercutting BPA's sales. Second, allocation of the Intertie will result in undercollecting transmission revenue because access may be assigned to a utility but go unused. In other words, allocation based on the Intertie requires that the Transmission schedule rate be based on allocation rather than scheduled transactions.

The PGP, along with other regional generating utilities, opposes BPA's alternate proposal which we call "rolling thunder." This approach, which allocates access based on the entire Intertie and then when BPA does not sell its entire portion; "carryover" that which is unmarketable is unacceptable. This conflicts with wheeling rate principles which require payment based on allocation. It introduces marketing uncertainty and confusion for nonfederal utilities.

C. Present Nonfederal Access Should Not Be Reduced Because of Increased Federal Access

1. PGP Position

The PGP opposes any increases in federal access (as a result of Joint Ventures, Sales in Lieu of Exchanges or firm displacement-like transactions) which cause commensurate decreases in nonfederal access. Any attempt to "eat away" at nonfederal access currently proposed, whether it be Assured Delivery or Formula Allocation, would reduce the partnership aspect of this Policy to nothing.

2. Other Utilities' Positions

Puget Sound Power and Light
Portland General Electric Company

These utilities have also stated that increased federal access should not reduce nonfederal access (either Assured Delivery or Formula Allocation).

D. Modify "Likelihood to Spill" Language

1. Positions on This Issue

Intercompany Pool

The PGP did not take a position on this issue in our February 5th comments. We do, however, agree with the various members of the Intercompany Pool that BPA has written the Policy in a way which makes it advantageous for BPA to be in a Condition 1. For this reason, after expiration of the Exportable Agreement, we encourage BPA to "announce" a Condition 1 based upon anticipation of spill period within reasonable period of time, or upon a determination by BPA that energy would be wasted otherwise.

E. Revisiting Conditions 2 and 3 Upon 3rd AC Addition

1. Positions on this Issue

City of Vernon
Oregon PUC

The PGP expects the Policy to discourage anticompetitive transmission access. In previous comments we have suggested that BPA define the word "impaired" in the section which deals with modifying allocations during Conditions 2 and 3 upon commercial operation of the 3rd AC.

The PGP is concerned about the current situation in the Southwest and supports the Oregon PUC's comments that BPA reassess the competitiveness in the Southwest before modifying the Condition 2 and 3 provisions.

F. BPA "First"

1. The PGP Position

The PGP opposes any attempt to dispose of the Formula Allocation concept. The idea of setting aside Intertie capacity for BPA's nonfirm energy transactions and in effect, reducing any nonfederal utility's Formula Allocation so that BPA can sell all of its energy is not economic, is inefficient, and is illegal.

2. Other Parties' Positions

Western Public Agencies Group
Non-Generating Public Utilities
Direct Service Industrial Customers

These utilities or utility groups have indicated that BPA may in fact be incurring an additional cost of $50 million/year due to "sharing" nonfirm Intertie Access with nonfederal entities. This calculation has not been substantiated. It is an uninformed attack at the common carrier principles that BPA is required to employ in the Policy based on the legislative history described in Puget's comments.

We want to encourage these utilities to consider the real costs that BPA would incur if nonfederal utilities used all of their own nonfirm energy to serve their own load, thereby displacing firm BPA energy and capacity. For example, BPA has identified additional costs of $10 million/year resulting from lack of Intertie access and therefore, displaced BPA power. We have examined BPA's study briefly and conclude that they are reasonable estimates for generating utility displacement costs, although they are probably higher.

The proposal by WPAG to set aside 85% of the Intertie for BPA's portion of nonfirm energy transactions bears no relationship with the proportion of nonfirm energy generated by the Federal system. This proposal does not embrace Exportable Agreement principles. This proposal does not reflect common carrier principles. The

principle would exacerbate BPA's revenue recovery and would result in inefficient use of resources.

III. Mitigation

A. Mitigation Should Be Cost-Based.

1. PGP Position

The PGP supports mitigation for real costs (and real benefits) incurred as a result of Assured Delivery transactions. We support BPA in analyzing this dimension of the Policy and encourage the development of a menu of options (contractual, operational, financial, etc.) which may be used, on a case-by-case basis, to ensure compensation for either BPA or nonfederal utilities incurring costs as a result of the transaction.

2. Other Parties' Position

Washington Utilities and Transportation Commission
Pacific Northwest Generation Company
Montana Power Company

These entities have specifically stated that mitigation should be cost-based. The PGP agrees that quantified, demonstrable costs should be mitigated and benefits accounted for.

The DSI's, Non-generating Public Utilities, and WPAG utilities have indicated that BPA should be fully or more than fully compensated. For example, the DSI's are concerned that the top quartile may be affected or that without specific provisions in the Policy (COB/NOB returns, no cash out's, no lost federal nonfirm sales, etc.). While we agree that BPA be held harmless, we do not support a proposal which provides overcompensation at the expense of nonfederal generating utilities.

There is a great deal of mystery associated with BPA's mitigation analyses. Generally, utilities without generation insist that BPA is not compensating itself sufficiently and generating utilities claim that BPA is being overcompensated. The PGP strongly encourages BPA to continue its analysis (such as that included in the February 11, 1988 letter from J.A. Cameron, Jr.) in order to

fully account for costs and benefits which may be realized by BPA. Sensitivities with and without intertie expansion should be performed, the affect on average system cost need to be more fully assessed, the value of foregoing energy purchases in the Northwest as a result of exchange returns must be considered, the benefit from increased storage, etc.

Not until a relatively high level of confidence is achieved with respect to the quantification of costs to be mitigated and offsetting benefits, will a solution be identified and endorsed.

Western Public Agencies Group

The suggestion that a public process for reviewing case-by-case mitigation between BPA and nonfederal utilities is one that is unacceptable and unworkable. This region does not need an additional layer of review by regional utilities to continually ensure that BPA is doing its job. The delay caused by a public process, each time, would effectively nullify the opportunities for economic and efficient use of resources embodied in this Policy.

The suggestion that a 7(i) process should be used for reviewing the applications of mitigation methodology makes some sense. It is critical that the region comes to some agreement before then as to how the costs and benefits will be quantified and what specific methodology will be used for the duration of the Policy.

B. Mitigation for Exchanges as Compared with Firm Sales

1. PGP Position

The PGP supports BPA in providing Assured Delivery for both firm sales and Exchanges. We have endorsed, generally, the 800 MW level and the split between firm sales and exchanges. We have also indicated that it may be valuable for BPA to allow firm sales to convert to exchanges but that we do not support conversions of exchanges to firm sales.

2. Other Parties' Positions

Montana Power Company

Montana has indicated that exchanges are not paying their "fair share" relative to firm sales. The "three major disadvantages" cited by MPC are misleading. First, the claim that exchanges eliminate access to the SW market without decreasing the overall NW surplus is a short-sited concern. The NW region is not "forever surplus." Second, there is no indication that all exchange returns will be made during light load hours or that the systems accepting these returns will be harmed by established return provisions. The third reason made by Montana which is that winter returns will increase the winter-time surplus and increase the threat of spill is ignoring the load profile of the region and the seasonality of the spring freshet.

The PGP remains convinced that firm surpluses are relatively more expensive and therefore, require relatively more mitigation than exchanges.

C. Cash Out Provisions Should Be Modified

1. Positions on This Issue

The PGE supports Cash Outs which meet specific criteria. Cash outs can enhance Northwest operations without harming other scheduling utilities.

The ICP questions any cash out provisions.

Other parties (Washington Water Power and Western Public Agencies Group) have also indicated that the Cash Out provision should be modified. Water Power is concerned that, as written, the provisions are too restrictive; the latter "Group" opposes operation of these provisions in an unrestricted manner.

As written, Section 4(d)(4)(B)(ii), could be interpreted to mean that exchange energy, scheduled to be returned by contract, must be returned to the exchanging Northwest utility from a California generating resource when Condition 1 or 2 exists in

the Northwest. This type of policy will only exacerbate the Northwest surplus at that time. We propose the following language:

> "(ii) During any hour in which BPA has invoked Condition 1 or Condition 2 allocation procedures to preschedule energy deliveries, a utility may use the cash out provision of its contract to the extent that:
>
> "(1) The utility has an allocation; and
>
> "(2) The return which is being cashed out is considered in the determination of the SW market or the Intertie, whichever is less.
>
> "The utility's allocation used for a cash count will not be available for other transactions. A utility may only cash out an amount up to its cash out or its allocation, whichever is less. To the extent that utility's allocation exceeds its return which is being cashed out, the difference may be sold over the Intertie. Cash out shall not be allowed for energy originally supplied to the SW during Condition 1. The rate of a cash out shall not exceed the rate at which the exchange return would have been scheduled under terms stated in the exchange contract."

IV. Fish and Wildlife Protection

A. BPA Letter Dated February 11, 1988 Requesting Additional Comment.

BPA would like to know when it is appropriate to make a determination of whether a project is consistent or inconsistent with the requirements of the power plan or the regional fish and wildlife program. We do not believe that consistency with the plan or program is necessarily the appropriate question, that instead, BPA should evaluate whether or not a project will adversely affect or reduce the effectiveness of the Administrator's investment in fish and wildlife. In either

case, the timing of a BPA determination is in part dependent on the actions of an applicant or licensee. If a licensee or applicant requests, after making its plans known to BPA, such a determination, then BPA should proceed to make such a determination at that time. It would be inefficient and counterproductive to do otherwise. Before an applicant or licensee initiates an action with FERC he must know and understand any risks which may be associated with a project proposal. Only in this manner can unnecessary procedural and possibly litigative action be avoided. If the applicant or licensee fails to make a request for a determination, then BPA, on its own volition, should initiate the process at the earlier time that it is aware of the plans of a project. This could be the result of a Notice of Application from FERC, response to a NEPA scoping request or receipt of an application for review. In making its determination, it is essential that BPA state its position and reasons therefor in a clear and concise manner and so inform all interested parties including the licensee, FERC, the Council and agencies.

BPA would like to clarify what is an existing hydro resource. PGP addressed this question in its initial comments by providing a suggested definition to be included in the policy. The suggested definition was: "hydroelectric resources within the region having a FERC license as of the date of implementation of this Policy." Modifications to a project may or may not require an amendment of the project license, depending upon the magnitude of the modifications to be made. In any event, modification of a project does not require a "new" license. Even though a modification does not require a new license, BPA should review the proposal for the modification by the same standard suggested by PGP, whether or not the investments of the Administrator for fish and wildlife, or the effectiveness thereof, would be adversely affected. The same basic procedural steps outlined in the previous paragraph would still apply to applications for amendment.

B. Non-Generating Public Utilities - LTIAP

Mr. Foleen suggests that BPA limit its attention to hydro projects which need to use intertie facilities to justify the project's economic feasibility. While there may be a class of projects of limited size which would fit into this category, the economic viability of most projects will be affected either directly or indirectly

by the availability of intertie capacity. The very nature of hydroelectric projects makes them ideal candidates for diversity arrangements with other resources, both within and outside the region. To the extent that these arrangements can be perfected, the overall economics of a project will be improved. If a Northwest utility exchanged summer hydro surplus to a Southwest utility for energy returned during the winter months, the project (and returned energy) would serve winter load in excess of what the project otherwise would have served.

Since BPA has no authority to develop resources and must rely on purchases from its customers or other resources in the future to serve its obligations, these types of efficiency exchanges will save Northwest and Southwest taxpayers money and help to preserve environmental resources in both regions. An interim sale to the Southwest should not serve as the basis on which to restrict intertie access. We agree with Mr. Foleen if the sole purpose of project development were to support export sales.

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February 18, 1988

RECEIVED BY BPA
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4 (OK)

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P. O. Box 12999
Portland, OR 97212

RE: PGE

Dear Ms. Geiger:

Enclosed you will please find the Cross-Comments of The Washington Water Power Company in regard to the BPA Long-Term Interite Access Policy.

Very truly yours,

PAINE, HAMBLEN, COFFIN, BROOKE & MILLER

Gary A. Dahlke

GAD:ty
A64

Attachment
LTIAP-3-195

CROSS-COMMENTS
OF THE WASHINGTON WATER POWER COMPANY
TO BPA'S LONG-TERM INTERTIE ACCESS POLICY

These cross-comments are submitted on behalf of The Washington Water Power Company ("WWP"). Time does not permit a complete review and response to all of the comments of other parties. The following comments address key issues raised by other comments or, in some instances, new proposals.

FISH AND WILDLIFE

The comments of the National Marine Fishery Service (LTIA-3-74) contain the following statement:

> Because of the successive environmental and procedural hurdles imposed by ECPA, few hydroelectric projects in the region will remain eligible for PURPA benefits. Thus, the region's utilities will only be required to make mandatory power purchases under PURPA in unusual cases.

Along the same lines, the comments of the NRDC (LTIAP-3-132) state as follows:

> We agree, nonetheless, that such projects might be licensed. But we have difficulty believing that anyone would build them since--as the proposed policy points out, and as the Washington UTC representatives have confirmed publicly--state utility commissions would apply a downward adjustment to PURPA's compulsory "avoid cost" payments, reflecting the loss of Intertie access. We are so confident that no project would survive that adjustment that we would concur in a Policy amendment that exempted any such survivors from the Intertie penalties.

Exempting "survivors" of Intertie penalties assumed to be imposed by state regulatory commissions addresses the short comings of BPA's proposed Policy for some, but not all conditions beyond a utility's control. If a state regulatory commission did not concur with a particular protected area designation, or did not accept a utility's proposal to lower avoided costs for such projects, the risk of loss of Intertie access still remains. Over the term of long-term firm power contracts, it can be anticipated that the composition of state regulatory agencies

will change, and that the policies of those agencies might also change.

If the commentors are correct that the chances of a PURPA facility being built in a protected area are extremely unlikely, then the proposal to decrement firm Intertie access is overkill. BPA should note that a Northwest utility can only promise the following to a California firm power purchaser, or California utility interested in seasonal exchanges:

- that the Northwest utility will not build a new hydroelectric facility in an existing protected area; and
- that the Northwest utility will file avoided cost rates which reflect a policy intended to discourage development of hydroelectric resources in presently designated protected areas.

What the state utility commissions do now or in the future with such filings is beyond a utility's control, and the risk of decrement of firm Intertie access thus passes to the California purchasers, as well as Northwest sellers. WWP expects that the risk would be reflected in lower power sales prices or less favorable exchange terms for power transactions if California purchasers remain interested in these "firm" power transactions at all. Indeed, there is no evidence that California interests will accept the risk of future PURPA policies of Northwest state utility commissions, and thus, the BPA proposed policy could inhibit long-term firm transactions on the Intertie altogether.

It must be understood that it is not the amount of the penalty that is at issue here. Any reduction that could possibly follow as a result of state utility commission PURPA decisions introduces a risk of discontinuance of a firm contract. Since the greatest benefits for California purchasers in long-term firm arrangements would be expected to occur in the latter years of such contracts, the risk of decrement without liability on the part of the seller would seem to fall most unfairly on California purchasers who are not at all involved in the Northwest PURPA policies, state regulatory policies, or plans for hydroelectric development in the Pacific Northwest. Indeed, carried to an extreme, one can envision a situation in which Northwest

utilities would actually seek to develop hydroelectric projects within protected areas if the decrement of assured Intertie access was an excused force majeure event under the long-term firm power arrangement.

WWP continues to question BPA's authority to impose fish and wildlife restrictions on Intertie use or to assume a regulatory role reserved for other agencies. As a compromise, WWP would voluntarily promise BPA that it would not develop a new hydroelectric facility in an area designated as a protected area at the time of the promise, and WWP would be willing to promise to file avoided costs with its regulatory commissions which reflect a policy of discouraging hydroelectric development in existing protected areas. These are promises which can also be given to California purchasing utilities. This position assumes, but does not endorse action by the Regional Council to adopt a protected area plan for BPA resource acquisitions as a part of the Northwest Power Plan. WWP continues to oppose loss of Intertie access for following the federally mandated PURPA requirements once state utility commissions have acted in response to avoided cost filings. WWP continues to oppose loss of access for regulatory events which are beyond WWP's control and which occur after firm access has been granted, such as FERC relicensing conditions, or future action by the Northwest Power Council to adopt new protected area designations in originally unprotected stream reaches.

The comments of several members of Congress (LTIAP-3-142) and of the Northwest Power Council (LTIAP-3-139) are of special concern to WWP. These comments suggest that in order to protect the value of BPA's investment in fish and wildlife enhancement measures, BPA should take whatever measures are necessary to prevent development of a new hydroelectric resource or relicensing of an existing resource that is not consistent with the Council's Fish and Wildlife Program and Energy Plan, whether that resource is within or outside of the Columbia River drainage basin. This perspective was not, however, accepted in the final

version of the Northwest Power Act and should not carry any weight in BPA's Intertie policy.

The Northwest Power Plan only deals with BPA's authority to acquire resources for BPA's loads. There is no authority in the Act to specify what resources other Northwest utilities should acquire or operate to economically meet their own loads. If WWP obtains a license from the federal government to operate a hydroelectric resource, the Northwest Power Act does not impose any restriction upon that legal right. The savings clause of the Northwest Power Act in Section 10(a)(3) makes that abundantly clear. Failing the identification of any vehicle to impose a resource plan upon all Northwest resource acquisitions (not just BPA's) the Council, with the concurrence of several members of Congress has elected to expand its Northwest Power Act authority through the Intertie access policy. BPA is a willing participant in this endeavor because BPA appears willing to accept the end result which is to allow very little if any firm transactions with California utilities by any party other than BPA and thus, retain a captive market for BPA.

The Intertie itself bears little relationship to new small hydroelectric projects in the Northwest. For any contracts which WWP might enter into on the Intertie, WWP has sufficient resources in its existing resource base to perform the agreement without new hydroelectric resources. Attributing power sold on the Intertie to specific new hydroelectric resources is physically impossible.

The process which BPA is undertaking here (supported by several commentors) in attempting to impose fish and wildlife conditions for Intertie use, is legislative in effect. The real irony in all of this is that the environment is likely to suffer the most from the policy. In the absence of seasonal exchanges, new thermal resources are more likely to be constructed and sooner than would otherwise be the case. In the absence of reliable Intertie transmission from BPA, Northwest utilities will turn to other transmission routes which will result in inefficient use of the Intertie and greater impairment of the

environment than would otherwise occur. The Council and BPA are apparently banking that utilities will not discount economic transactions for the uncertainty resulting from subjecting all Northwest hydroelectric resource acquisitions and sales to the Southwest to uncertain future administrative determinations. WWP believes this expectation is misplaced.

MITIGATION SECTION

Several of the comments received by BPA from its full requirements firm power customers suggest, in effect, that the BPA transmission system is to be operated to maximize the benefit to BPA's full requirements firm power customers. LTIAP-3-100, p.3, LTIAP-3-123, pp.13-14. Towards that end, one customer group argues that BPA should adopt a policy of requiring mitigation for the non-firm formula allocation. As a transmission customer of BPA, WWP rejects both the premise for this argument and the proposed mitigation. WWP and other investor-owned utilities have repeatedly pointed out, without response from Mr. Foleen or others, that BPA would never have been allowed to acquire and operate the main grid transmission system in the Northwest, both within the region and linking our region with others, without the promise of BPA to operate that transmission system for all of its transmission customers at cost and without discrimination. The Exportable Agreement is clear evidence of the intent of Northwest interests to share non-firm Intertie capacity on the basis of a utility's non-firm energy available for sale.

BPA's September 1, 1964 white paper (attached) describing the intended uses of the Intertie aptly describes the arrangements among Northwest utilities and California as follows:

> An important consideration in the intertie plan is that within BPA's service area, intertie capacity will be available to all utilities in the Northwest, public and private, in proportion to their share of surplus secondary power and peaking capacity. Presently the Bonneville system has approximately 75 per cent of the region's surpluses.

While it might be argued that BPA could utilize its statutory authority to sell its non-firm energy first in any day,

and then during that day open the Intertie to non-federal use, as opposed to the existing formula allocation, there is no authority to require the Northwest utilities to provide a non-firm market for all BPA surplus power as a condition of Intertie access. The statute is quite clear in this regard:

> Any capacity in Federal transmission lines connecting, either by themselves or with non-federal lines, a generating plant in the Pacific Northwest or Canada with the other area or with any other area outside the Pacific Northwest, which is not required for the transmission of Federal energy or the energy required for the transmission of Federal energy or the energy described in Section 9, shall be made available as a carrier for transmission of other electric energy between such areas.

The House and Senate Reports which accompanied the Preference Act, included the following excerpt explaining Section 6:

> ...the Secretary many not decline to enter into a Wheeling agreement merely because he may have energy available for sale to serve the same load.

Mitigation is only appropriate for assured access. This is because the Preference Act gives no guidance as to the proper allocation between firm and non-firm uses. Mitigation which WWP offers is for non-firm use which could include federal use or non-federal use and is not for BPA per se. WWP has proposed that the operational mitigation included in its Edison Exchange Contract is sufficient to protect against an over allocation of firm capacity resulting in restricted non-firm sales. As a matter of convenience to BPA, to the extent that this operational mitigation can be estimated and quantified, WWP would accept a substitute per kilowatt hour charge for displacement of non-firm sales. However, the amount of this charge must be fixed for the life of the assured delivery contract, and must reflect only the amount of operational mitigation BPA would have received under an arrangement such as that contained in WWP's Edison Exchange Contract. This would provide BPA with more revenue than it presently receives. For example, BPA currently receives no mitigation revenues from the San Diego Gas & Electric peak exchange contract with WWP. As soon as BPA's full requirements

customers seek to convert the operational mitigation which WWP has offered into a negotiating contest for more BPA revenue, the concept of mitigation fails to serve the purpose of a fair allocation between firm and non-firm uses. The proposal of the non-generators is even more troubling when coupled with BPA's proposal to periodically review such charges.

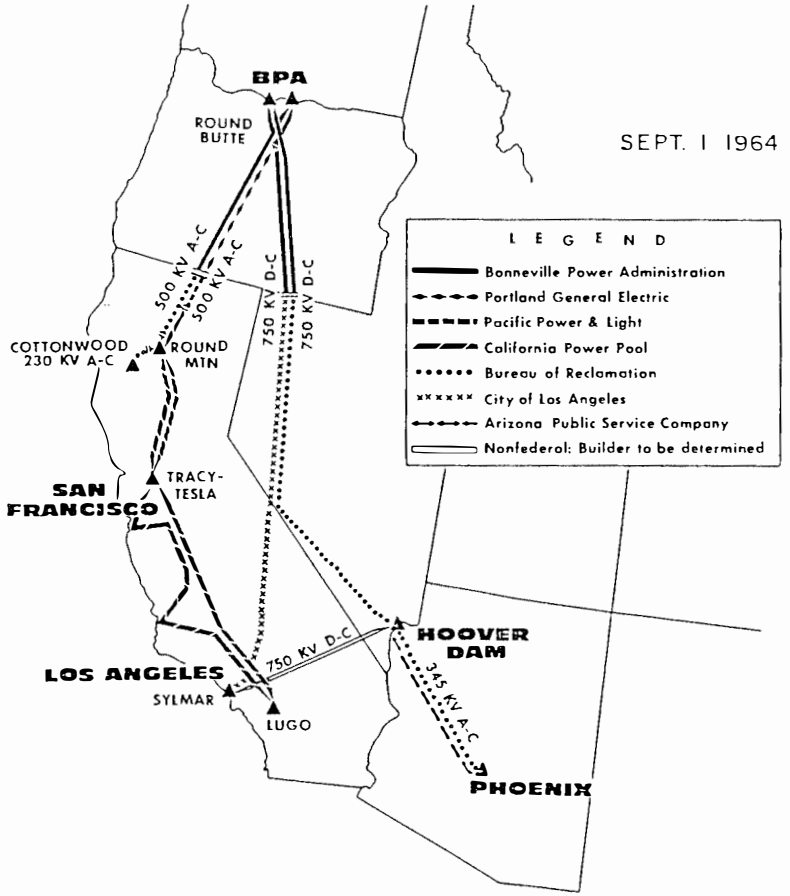
WWP further disagrees with the comments of Montana Power Company which suggest that greater mitigation should be required for assured access for seasonal exchanges, as opposed to assured access for firm sales. The mitigation needed in either case should be measured in terms of operational displacement of non-firm sales. Seasonal exchanges actually expand BPA's non-firm market due to the energy return obligations to the Northwest in the winter. Year round firm sales, on the other hand, are arguably more likely to displace non-firm sales whenever Conditions 1 or 2 are applicable. Montana Power Company has misstated the disadvantages of seasonal exchanges.

Several of the parties commented on requests for grandfathering of existing Intertie contracts, including the City of Tacoma (LTIAP-3-130) and Cowlitz County PUD (LTIAP-3-129). As WWP pointed out in its initial comments, with appropriate operational mitigation, there is no need to restrict the amount of firm access made available for seasonal exchanges or firm sales. However, to the extent that such restrictions are imposed by BPA or grandfathering is permitted, it would be the position of WWP that any grandfathering of existing contracts would include renewal of the WWP Edison seasonal exchange agreement, and, if requested, the San Diego Gas & Electric peak energy exchange with WWP. The comments of San Diego Gas & Electric (LTIAP-3-72) indicate a continuing interest in such exchanges, and accordingly, BPA's Long-Term Intertie Access Policy should be broad enough to include assured access for peak energy exchanges as well as for seasonal exchanges.

HYDRO CAP

WWP wishes to record its support of the comments of State of Oregon by Governor Neil Goldschmidt which suggest that under Condition 1 allocation, the BPA formula should use all resources with a variable cost less than the BPA non-firm rate used to allocate available capacity. This proposal seems to a fair compromise of the concerns of those expressed in meetings that without a hydroelectric cap utilities would over-declare their resources under a formula allocation, and the interests of those utilities with low cost thermal resources that have the ability to compete in a non-firm market but would be restricted by an arbitrary limitation based upon hydroelectric capacity.

PACIFIC NORTHWEST - SOUTHWEST INTERTIE



Legend shows who will build power lines. Intertie would permit exchanges of power, open markets for NW seasonal surpluses, do much to keep NW power rates low. Total cost $700 million. Total benefits $2.6 billion.

INTRODUCTION

The Pacific Northwest-Pacific Southwest Intertie is the biggest single electrical transmission program ever undertaken in this country.

The four big lines running from the Columbia River to Hoover Dam and Los Angeles and other points in California can carry more than 4 million kilowatts, southward or northward. This is equivalent to the output of two Grand Coulee Dams!

These lines will tie together electric systems -- public and private -- all the way from Vancouver, B. C., and Seattle to Los Angeles and Phoenix, including the biggest hydro system in America (the Bonneville Power Administration system), the biggest municipal system (Los Angeles Department of Water and Power), and one of the biggest private systems (the private utilities of California).

The lines will provide benefits to people in 11 Western States, including the customers of many small rural electric cooperatives, municipal systems and other public agencies -- about 250 in all. They will help provide a market for Canadian Treaty power in the early years when it will be surplus to Northwest needs. They will end the waste of kilowatts in the Pacific Northwest and promote maximum electrical efficiency throughout the West.

Two of the lines will be direct current, America's first and the world's longest. America will become the world leader in this exciting new transmission technique.

The lines will be built by a combination of public and private utilities and the Federal Government, thus reflecting the diversity of ownership in electrical facilities in this country and providing built-in protection against monopoly. The final plan results from months of negotiations stemming, in turn, from a Congressional mandate directing the Department of the Interior to negotiate in good faith with nonfederal entities to determine how the greatest total benefits to the national interest could best be achieved.

The Intertie extends to the entire West Coast the cooperative pattern developed among the public and private utilities of the Northwest, a pattern based on the concept that all electrical facilities -- regardless of ownership -- should be operated to produce maximum benefits to the consumer.

THE INTERTIE LINES AND THE OWNERS

1. A 750,000-volt direct current line of 1,350,000 kw capacity from The Dalles, Oregon, via Nevada to Sylmar Substation near Los Angeles, and a 345,000-volt alternating current line of about 400,000 kw capacity from Hoover Dam to Phoenix, Arizona, to be completed in 1968.

   -- The 265-mile Oregon portion of the d-c line will be built by the Bonneville Power Administration.

   -- The 560-mile Nevada-California portion of the d-c line will be built by the City of Los Angeles.

   -- The 240-mile Hoover-Phoenix 345,000-volt a-c line will be built by the Bureau of Reclamation, which also would "rebus" Hoover Dam to make possible the interconnection of the Hoover-Phoenix line with existing circuits between Los Angeles and Hoover Dam.

2. A 500,000-volt alternating current line of about 1,000,000 kw capacity from John Day Dam on the Columbia River via Round Mountain Substation and the Central Valley of California to Vincent and Lugo Substations near Los Angeles, plus a 230,000-volt line from Round Mountain, California, to the Cottonwood or Keswick Substation near Redding, California, to be completed in 1967.

   -- The 265-mile Oregon portion will be built by BPA.

   -- The 100-mile section from the Oregon border to Round Mountain will be built by the Bureau of Reclamation.

   -- The 34-mile 230,000-volt line from Round Mountain to Cottonwood also will be built by the Bureau.

   -- The balance of the 500,000-volt a-c line from Round Mountain south, about 650 miles over a zig-zag route will be built by members of the California Power Pool, consisting of the Pacific Gas and Electric Company, Southern California Edison Co., and the San Diego Gas and Electric Co.

(The federal portions of this 500,000-volt a-c line and the 230,000-volt a-c tap will provide an all-federal interconnection between the federal Columbia River Power System and the federal Central Valley System in California.)

3. A 750,000-volt direct current line of 1,350,000 kw capacity from The Dalles, Oregon, through Nevada to Hoover Dam, connected from Hoover to Los Angeles by a 750,000-volt direct current line and from Hoover to Phoenix by a second 345,000-volt a-c line, for completion in 1971.

   -- The 265-mile Oregon section will be built by BPA.

   -- The 560-mile Nevada portion will be built by the Bureau.

   -- The 270-mile leg from Hoover to Sylmar will be nonfederal; Southern California Edison and the City of Los Angeles will be asked for proposals to build this tie.

   -- The 240-mile 345,000-volt Hoover to Phoenix line will be financed by Arizona Public Service Co., in conjunction with the Arizona Power Authority.

4. A 500,000-volt alternating current line of 1,000,000 kw capacity from John Day Dam to Table Mountain in the Central Valley, where it will connect with a 500,000-volt a-c line to be constructed in any event from Table Mountain to Los Angeles by the California Power Pool. The portion from Table Mountain north probably will be scheduled for completion in 1967.

   -- The 80-mile portion from John Day Dam to Round Butte Dam in Oregon will be built by BPA.

   -- The 185-mile section from Round Butte to the Oregon-California border will be built by Portland General Electric Co. (Half the capacity will be leased to BPA.)

   -- A 50-mile section from the border south will be built by Pacific Power & Light Co., possibly for completion by 1965 for temporary operation at 230 kv.

   -- The balance, about 730 miles, will be built by companies in the California Power Pool.

TOTAL INVESTMENT $700 MILLION

Of the total investment of $700 million, the Federal Government's share will be nearly $300 million, divided $165,210,000 for the Bonneville Power Administration and $130,630,000 for the Bureau of Reclamation.

BPA's investment is broken down as follows: First 750,000-volt d-c line from The Dalles through Oregon, $54,960,000; second d-c line through Oregon, $56,525,000; first 500,000-volt a-c line from John Day Dam to the California border, $37,600,000; second 500,000-volt a-c line from John Day to Round Butte, $14,500,000.

The Bureau's investment breaks down this way: 500,000-volt a-c from the Oregon-California border to Round Mountain, plus the 230,000-volt a-c tap line to Cottonwood, $20,300,000; 750,000-volt d-c from the Oregon-Nevada border to Hoover Dam, $77,840,000; 345,000-volt a-c from Hoover to Phoenix, $24,090,000, "rebussing" Hoover Dam, $8,400,000.

CONGRESSIONAL GUIDELINES

Congress on August 14, 1964, voted $42.2 million for BPA and $3.3 million for the Bureau of Reclamation to start construction of their portions of the intertie, subject to certain conditions.

The conditions are set forth in the Senate Appropriations Committee Report on the 1965 Public Works Appropriation Bill. The pertinent parts of this report are quoted in full at the end of this summary. In summary, these are the requirements before any part of the funds can be spent:

1. S. 1007, the bill defining Bonneville's primary marketing area, must be passed. (This condition has been met).

2. Before the federal portions can be started, the Secretary of the Interior must accept the nonfederal proposals to build the other portions as described above and shown on the map on the cover.

3. None of the federal lines is to be started unless the 750,000-volt d-c line from The Dalles Dam to Hoover Dam has been started or is started at the same time.

4. Before the line from The Dalles to Hoover is started, the Secretary must find that it will be financially feasible and self-liquidating over its service life.

The Congress directed that no contracts between the Secretary and nonfederal agencies for construction of portions of the lines shall be effective "until funds appropriated in this Act become available after requirements set forth in this report have been met", and until the Secretary has directed BPA and the Bureau to proceed with construction.

With respect to wheeling contracts to be entered into between the Secretary and the nonfederal agencies, Congress expressed approval of Departmental policy to the effect that it will not enter into contracts which call for wheeling charges greater than federal costs for such service, or which do not provide to the Department wheeling

capacity in the lines to meet its full requirements. Congress asked that all such wheeling contracts be made public and transmitted to the Congress not less than 60 days before their effective dates.

The Secretary of the Interior also must insure that any displacement of Upper Colorado River Basin energy that may result from the line from The Dalles to Hoover Dam will not delay or otherwise adversely affect the repayment schedule of the Upper Colorado River Basin fund.

WHO WILL USE THE LINES

While only a little more than 40 per cent of the investment in the intertie lines will be made by the Federal Government, about 60 per cent of the capacity outside the BPA service area will be available to public agencies, including the Federal Government, the State of California, and about 250 other public agencies, including many municipals and co-ops. The intertie transmission capacity probably will be used as follows:

Public Power	Private Power
In California, 1,700,000 kw of transmission capacity at federal cost or less, as follows: Los Angeles, Pasadena, Burbank, and Glendale, 600,000 kw; Sacramento Municipal Utility District, up to 400,000 kw; State of California, 300,000 kw; and Bureau of Reclamation, 400,000 kw (for smaller preference customers).	In California, 1,400,000 kw of transmission capacity, of which 300,000-700,000 kw is at Los Angeles cost (not more than federal cost), and balance is at private companies' own costs (substantially higher than federal costs).
In Arizona, Nevada, and Colorado Basin, 900,000 kw of transmission capacity at federal cost, as follows: Colorado River Commission of Nevada, 200,000 kw; Nevada Co-ops, 60,000 kw; Salt River Project, 300,000 kw; Arizona Power Authority, 25,000 kw; miscellaneous Arizona preference agencies, 135,000 kw; and Colorado River Storage Project (Colorado, Wyoming, Utah and New Mexico), 200,000 kw.	In Arizona, Nevada, and Colorado Basin, 400,000 kw of transmission capacity at federal costs.

An important consideration in the intertie plan is that within BPA's service area, intertie capacity will be available to all utilities in the Northwest, public and private, in proportion to their share of surplus secondary power and peaking capacity. Presently the Bonneville system has approximately 75 per cent of the region's surpluses. In the Pacific Southwest transmission charges to the Federal Government and preference customers for leased capacity in the nonfederal portions of the lines will be as low as or lower than if the Federal Government had built all the intertie facilities.

WHAT THE LINES WILL BE USED FOR

The intertie lines will be used for five principal purposes.

First, the intertie lines will permit BPA and owners of nonfederal dams to market their surplus peaking capacity.

(Peaking capacity is the ability of a system to produce large quantities of power for brief periods of time to meet peak loads. In the Northwest we have or can install at existing dams more generators than we have streamflow to operate the generators full time. By releasing water through all the generators we can produce great quantities of power for meeting peak loads. We can sell this peaking capacity in California and other Southwest areas without diminishing our ability to produce firm power. This is because Southwest utilities, on off-peak, can run their steam plants to return the same amount of energy to the Northwest. Here in the Northwest we can shut down our generators and store an equivalent amount of water that is required to produce the peaking energy in the first place. We call this "selling peaking capacity without energy.")

Second, they will enable BPA and owners of nonfederal generating plants in the Northwest to market their surpluses of secondary power.

(Secondary power is that which can be produced when stream flows are higher than critical, but which cannot be guaranteed for delivery day in and day out. Some $20 million worth of BPA secondary power now goes to waste every year over the spillways of Northwest federal dams for lack of a Northwest market for this kind of power. It can be used by utilities in California and elsewhere in the Southwest which utilize steam plants that burn fuels which are more costly than the delivered price of Northwest secondary power. When Northwest secondary power is available over the intertie these steam plants can be shut down at substantial savings in fuel costs; when Northwest secondary is not available, the steam plants can be fired again and customers can continue to be served without interruption.)

Third, the lines will permit exchanges of energy between regions to take advantage of diversity in streamflows and peak loads.

(In parts of the Southwest, peak loads occur during the summer months for air conditioning and irrigation pumping. In the Northwest peak loads occur in the winter, mainly for heating. We in the Northwest therefore can transmit our summertime surpluses of power to the Southwest and the Southwest can send the power back in the winter months, when we need it. This permits utilities in each region to meet peak loads with less plant investment than if each region were to install 100 per cent of the generation needed to meet its own peaks.)

Fourth, the intertie lines will make it possible for BPA to firm up some 700,000 kilowatts of secondary power and make this much additional firm power available for sale to customers here in the Northwest.

(Some years we can produce substantial quantities of secondary power the year around, in other years for many months, and only in a critical water year would we be unable to produce any secondary power. But by importing a small average amount of steam energy from the Southwest to fill in the low spots in streamflow, we can firm up and thus be able to guarantee delivery of an additional 700,000 kilowatts. Transmission of steam energy northward to firm up Northwest secondary power and to return energy at off-peak will be advantageous to the coal industry.)

Fifth, the lines will enable Northwest utilities to sell in California, Canada's share of Columbia River Treaty power for the time it is surplus to Northwest needs.

(Under the Treaty, Canada will build three large storage dams on her side of the border. This will level out the flow of the Columbia and enable existing U. S. dams to produce initially an extra 2.8 million kilowatts. Canada gets half this additional power and the U. S. the other half. However, Canada has decided to sell her half of the Treaty power in the U. S. for the first 30 years, and Northwest utilities have agreed to buy it. The Treaty storage dams will be completed in 1968, 1969, and 1973, putting large blocks of power on the market in a short period of time. It will all be needed in the Northwest by the mid-1970s, but until then, large portions of Canada's share will be surplus to Northwest needs. For as long as it is surplus, it now can be sold in California. If we did not have the intertie lines, the Northwest utilities who are buying Canada's share would use it in the early years -- because they would have to pay for it, anyway -- and buy less power from BPA -- about $55 million less, we estimate. This would increase pressure for a BPA rate increase.)

SELLING PRICE OF POWER

BPA will sell its surplus secondary energy at the Southern Oregon border at the same "postage stamp" rate at which it sells to customers in the Northwest. This rate will be 2 mills per kilowatt-hour under projected rate schedules. Purchasers outside the Northwest will bear the transmission charges from the Southern Oregon border to their load centers.

BPA will sell peaking capacity without energy -- that is, peaking power where the energy is returned -- for $9 per kilowatt-year under projected rate schedules. There also will be a special short-term summertime rate of $5 per kilowatt-year for those who need peaking in the summertime only. Purchasers of peaking power would bear the transmission costs from the Oregon border south, and also the transmission costs north to the Oregon border when they return the energy associated with the peaking capacity.

Any changes in the BPA rate schedules will apply to customers outside the Northwest, as well as those in the Northwest.

Canadian Treaty power will be sold at the Southern Oregon border for the same price it is available anywhere else in the Northwest. This price includes $1.50 per kilowatt-year transmission charge payable to BPA for transmitting Treaty power to any part of the Bonneville grid.

REGIONAL PREFERENCE

Federally-generated hydro power needed in the Northwest by public agencies, co-ops, industries or private utilities will not be exported over the intertie. This was assured by passage in August of S. 1007, the Bonneville Marketing Area Bill.

The bill defines the Pacific Northwest as roughly the drainage area of the Columbia River Basin and associated coastal plain. Only power surplus to the needs of this region may be sold outside the region, and only under contracts making the power recallable if a need develops for it in the region.

The bill extends reciprocal rights to consumers in regions interconnected with the Northwest.

YARDSTICK PRINCIPLE PRESERVED

Transmission charges to be paid the nonfederal utilities that are building parts of the intertie were measured against the estimated costs of a federal yardstick intertie system. In each case, the charges are the same as or less than federal yardstick costs.

At the local level, this intertie plan also preserves the public power yardstick. For example, the Sacramento Municipal Utility District would be able for the first time in its history to become independent of the Pacific Gas and Electric Company in the matter of power supply. This would provide a yardstick to measure the reasonableness of electric rates throughout the private company's service area. In Southern California, the Los Angeles, Glendale, Burbank and Pasadena municipal systems -- all participating in the intertie program -- can do likewise.

WHO WILL CONTROL THE LINES

Control of the intertie lines will be shared by a large combination of federal, public and private utilities. By contract, most of the capacity will be controlled by federal and public agencies, as shown in the line capacity figures presented in an earlier section of this summary.

Preference customers in the Southwest, such as the State of California, Sacramento Municipal Utility District, the Bureau of Reclamation, and the City of Los Angeles will have an unrestricted right to buy and transport power from any Northwest and Canadian source, whether or not in competition with private utilities in the Southwest.

BENEFITS FROM THE INTERTIE

Over a 50-year payout period the intertie lines will produce total benefits measurable in dollars estimated to be at least $2.6 billion. There are important other benefits such as greater assurance of federal power supply for preference customers, advancement of extra-high voltage transmission technology, conservation of exhaustible resources, reductions in generating reserves, emergency assistance between large electrical systems and other benefits that are difficult to measure in terms of dollars.

The estimated dollar benefits will be divided as follows: Pacific Northwest, $1 billion; California, $869 million, and Arizona-Nevada, $724 million.

Among the most important benefits to Northwest citizens is an estimated increase in BPA net revenues of as much as $20 million a year, and on the average $11 to $12 million per year for 50 years. BPA's increased revenues will result mainly from sales and exchanges of secondary energy and peaking capacity. This will go a long way toward helping keep BPA rates low. It will spare BPA customers at least $550 million in rate increases otherwise necessary during the 50-year payout period.

Construction Program Benefits

Additional benefits accrue to the nation in the form of construction activities that mean jobs and payrolls and profits and increased state, local and federal taxes.

An estimated 10,000 man-years of direct employment in the field will result from construction of towers and transmission lines and related construction activities. Another 30,000 man-years of work will be required in the nation's factories to produce the materials that go into the lines and terminal equipment.

The four lines will require 118,000 tons of ACSR (aluminum conductor steel reinforced) cable. If steel towers are used, some 230,000 tons of steel will be required. If aluminum is also used for the towers, the requirements would be 47,000 tons of aluminum and 110,000 tons of steel.

Northern California Benefits

Among the many benefits to Northern California preference customers are these:

1. A 40-year "bank account" arrangement between the Bureau of Reclamation and the Pacific Gas and Electric Company which will enable the Bureau to meet the load growth of its present Central Valley Project customers until 1980 and, after 1980, to maintain a higher level of power supply for its CVP customers than otherwise possible. The Company will accept power from the Bureau as it becomes available to the Bureau from the Northwest and other sources, use the power on its own system, and then return power to the Bureau as needed to serve its CVP loads. The Bureau has 400,000 kilowatts of intertie capacity with which to help maintain the bank account. Savings to the Bureau's CVP customers as a result of this arrangement are estimated to be at least $340 million.

2. Assurance of Canadian Treaty power for the California Water Project. Northwest purchasers of Treaty power have agreed to sell the State of California 150,000 kilowatts for 15 years and another 150,000 kilowatts for 10 years. Combined with a banking arrangement and off-peak steam support from the California private utilities, this will enable the State to utilize 300,000 kilowatts of Intertie transmission capacity and the Canadian Treaty power for 15 years. At the end of the 15 years the State may continue to lease the full 300,000 kilowatts of transmission capacity if it finds other economical sources of power in the Northwest and Canada, or it may terminate the lease without liability. This arrangement enables the State to design its pumping facilities for optimum "on-peak" operation and to meet its full estimated on-peak pumping requirements until 1972 or 1973. By that time it can have completed the first of the large-scale atomic power plants recommended by its power consultant to meet long-term pumping requirements.

3. Opportunity for the Sacramento Municipal Utility District (SMUD) to bridge an approximately five-year power gap that will occur before it can build a large atomic power plant to meet its own load growth. SMUD will have 200,000 kilowatts of transmission capacity for the life of the lines, and an option on another 200,000 kilowatts from 1971 through 1975. With the extra 200,000 kilowatts of transmission capacity until 1975, SMUD will be able to purchase Northwest power for up to five years to meet its normal load growth, at the end of which time it can have in operation its own atomic power plant.

DIRECT CURRENT TECHNOLOGY

The two big direct current lines in the Intertie program will be America's first and the world's longest direct current lines.

Other nations, principally Sweden and Russia, have pioneered direct current. This Intertie program will enable the United States to assume world leadership in the application of this exciting new transmission technique.

Direct current, as the nomenclature suggests, is current moving in one direction only. Alternating current is similarly self-descriptive -- it pulsates back and forth.

Direct current can be used to move large amounts of power over long distances more economically than alternating current, providing the line need not be tapped at frequent intervals. When lines have to be tapped frequently to serve many cities and industries, alternating current has the advantage. This is because d-c transmission requires expensive terminal facilities to convert a-c generation into d-c for transmission and back to a-c for ultimate use by consumers. Nearly all U. S. machines and appliances, homes and office buildings, farms and factories are geared to use of alternating current. So, to keep terminal equipment costs to a minimum, d-c lines must serve as electrical "freeways" with few if any turnoffs. Note that both the d-c lines in the Pacific Northwest-Pacific Southwest Intertie are nonstop lines.

The major economy in direct current transmission is that it requires only two conductors as opposed to the conventional three strands for alternating current. Thus, towers have to carry less weight, can be smaller, and cost less. The economic cross-over point is where the savings in cable and towers offsets the high cost of terminal equipment. Additionally, d-c permits savings in right of way costs because narrower and fewer circuits are needed to carry the same amount of power. It reduces insulation costs because lower voltages can be used. Further, it permits each region to retain its local frequency control.

Distance is not a technically limiting factor. That is, the larger the conductor, the farther power can be transmitted for a given voltage. Line losses are smaller with d-c than with a-c. For transmitting the same amount of power over the same size conductor for the same distance, a-c line losses are one-third again as much as for d-c.

While we now know enough about d-c transmission to utilize it effectively and economically for the Pacific Northwest-Pacific Southwest Intertie, we hope to learn still more from experience with these lines so as to further lower the costs of d-c and increase its potential uses.

HOW THE INTERTIE CAME ABOUT

This Intertie program is the culmination of, and the enlargement of, an idea first suggested nearly 30 years ago. In 1935 the Pacific Northwest Regional Planning Commission, a federal agency, issued a report on "The Columbia Basin", which envisioned the eventual interconnection of the power resources of the two regions.

The first detailed investigation of a possible intertie between the Bonneville system and the Central Valley Project of California was made by the Bureau of Reclamation in 1949, with a finding of feasibility for a 230,000-volt interconnection.

In 1953 a Federal Power Commission study reaffirmed the economic advantages of a strong intertie between the two regions, consisting of one or two 230,000-volt interconnections.

Despite these findings and strong recommendations, the proposal did not make any headway. In fact, a backward step was taken in 1953 when Bonneville's Yamsay-Klamath Falls line was sold to the California-Oregon Power Company (Copco), thus preventing the Bonneville system from reaching the California border as originally contemplated.

In the meantime, Bonneville's surpluses of secondary energy continued to waste to the sea, and Bonneville's financial position started slipping.

In 1959 and 1960 a 230,000-volt interconnection was proposed by Pacific Gas and Electric Company. However, the Senate Interior Committee requested deferral of the proposal pending enactment of legislation to assure each region that power consumers in that region would have first call on federal hydroelectric power generated in their respective areas. That is the legislation that finally was enacted in August, 1964.

The present Intertie plan emanated from instructions by the late President John F. Kennedy, who directed the Secretary of the Interior to "develop plans for the early interconnections of areas served by that Department's (power) marketing agencies."

On March 10, 1961, Secretary Udall appointed a special Task Force headed by Bonneville Power Administrator, Charles F. Luce. The Task Force reported on December 15, 1961, that an extra-high voltage interconnection between the two regions should be constructed "at the earliest practicable time" and stressed the "exciting promise" of d-c transmission. The report did not recommend a specific construction program, but said the intertie could be built and operated by the Federal Government, by nonfederal public and private agencies or by a combination thereof.

In January 1962, the Budget Message of the President contained a request for funds for the design of an extra-high voltage intertie between the two regions, and Congress provided $300,000 for continuing studies. Early in 1962, regional protective legislation was introduced. It passed the Senate, but the House Interior Committee did not complete action on the bill.

Again in 1963, the regional protective bill, S. 1007, was introduced and funds were requested to start construction of two intertie lines. In November 1963, Congress appropriated $7 million to start construction of two lines subject to passage of the regional protective legislation, which by then had passed both Houses, but in different forms, which still had to be reconciled in Conference Committee. Congress also instructed Secretary of the Interior, Stewart L. Udall:

> ". . . construction shall not begin unless the Secretary of the Interior finds, after good faith negotiations with utilities and other entities interested in constructing any portion of the lines involved, that their proposals would not result in benefits to the Federal Government equal to those to be derived from federal construction."

In March 1964, Assistant Secretary of the Interior, Kenneth Holum, established criteria, including a proposed federal yardstick intertie system, for the evaluation of nonfederal proposals. At the same time, Secretary Udall appointed a Departmental negotiating team composed of Bonneville Power Administrator, Charles F. Luce, Chairman; Emil V. Lindseth, Associate Chief Engineer, Bureau of Reclamation; and Morgan Dubrow, Assistant and Chief Engineering Advisor to Assistant Secretary Holum. The team's assignment was to evaluate proposals -- 12 in all -- negotiate further with the most promising -- and make recommendations to Assistant Secretary Holum and Secretary Udall.

Following several months of intensive negotiations, which developed the need for four big lines, and the recommendations to Secretary Udall, the Secretary, on June 24, 1964, submitted the Intertie plan to Congress in a form substantially similar to that described herein. Further negotiations led to amendments of July 21 and July 27, 1964, and to the final plan herein described. Congress put its final stamp of approval on the plan August 14, 1964, appropriating funds to start the federal portions. On the same day a Senate-House Conference Committee reconciled differences between the two Houses over S. 1007, and passage of that Bill followed a week later.

This capsule history of the struggle for the Intertie makes no attempt to record the drama, the elements of controversy which on many occasions nearly scuttled the program, the give-and-take negotiations, the long hours of work by many people, or the leadership of the President, the Secretary and many members of Congress which led to the eventual agreement.

The final result is lasting benefits to the people of the West and of the nation and a demonstration, in the words of Secretary Udall, "of the ability of public, private and federal power to work together for the good of the nation."

EXCERPT FROM SENATE APPROPRIATIONS COMMITTEE REPORT ON

1965 PUBLIC WORKS APPROPRIATION BILL

"Pacific Northwest-Pacific Southwest Intertie, $42,200,000 --

The committee recommends an appropriation of $42,200,000 to initiate construction of three of the four transmission lines between the power system of the Bonneville Power Administration and the Pacific Southwest recommended in the report of the Secretary of the Interior on June 24, 1964, as amended on July 21 and July 27, 1964. The committee's recommendation is based upon acceptance by the Secretary of the Interior of those proposals for participation in the construction of the intertie transmission facilities submitted by nonfederal agencies, which the Secretary indicates in his report, as amended, he will utilize in effectuating the intertie.

"Of this amount, $1 million is for the Oregon portion of the 750-kilovolt direct-current line between The Dalles Dam and Hoover Dam; $29,300,000 for the Oregon portion of the 750-kilovolt direct-current line from The Dalles Dam via Nevada to the Sylmar substation, Los Angeles; and $11,900,000 for the Oregon portion of the 500-kilovolt alternating-current line between the John Day Dam via the Central Valley of California to the Vincent Substation, Los Angeles.

"The committee directs that before construction of The Dalles Dam-Hoover Dam line begins, the Secretary shall review load potentials on the line and find that it will be financially feasible and self-liquidating over its service life. In this review, he will consider the importance of this line to, and its economic effect on, the entire intertie system which he has recommended, and shall take cognizance of the economic value of the line for diversity exchanges between the Pacific Northwest and the Pacific Southwest, as well as the advantages to the Federal Government of an interconnection between two major federally owned power systems. Before energy generated in the upper division of the Colorado River Basin may be displaced by energy transmitted on The Dalles Dam-Hoover Dam line, the Secretary shall insure that said displaced energy is marketable in such quantities and at such rates as to assure that the repayment schedule of the Upper Colorado River Basin fund will not be delayed or otherwise adversely affected; and will not displace energy supplied to consumers (excepting cooperatives and public bodies as defined in the Bonneville Project Act) from any other source.

"With respect to the intertie lines, the committee approves the existing policy of the Department to the effect that it will not enter into contracts which call for wheeling charges greater than federal costs for such service, or which do not provide to the Department wheeling capacity in the lines to meet its full requirements. It is the desire of the committee that all such contracts be made public and be transmitted to the Senate not less than 60 days before their effective dates.

"The committee directs that none of these funds shall be expended until there has been enacted into law S. 1007, or similar legislation, guaranteeing electric consumers in the Pacific Northwest first call on electric energy generated at federal hydroelectric plants in that region and to guarantee electric consumers in other regions reciprocal priority.

"The committee also directs that no contracts between the Secretary and nonfederal agencies for construction of portions of these transmission lines shall be effective until funds appropriated in this act become available after requirements set forth in this report have been met; and until the Secretary has directed the Bonneville Power Administration and the Bureau of Reclamation to proceed with construction of all those portions of the transmission lines for which appropriations are provided in this bill. It is the desire of the committee that construction of the 750-kilovolt direct-current line between The Dalles Dam and Hoover Dam shall commence not later than construction of other lines of the intertie is initiated."

SDG&E

San Diego Gas & Electric

February 18, 1988

83-037.08.01

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP3-196
RECEIPT DATE:
FEB 19 1988
AREA: DISTRICT
P-3

Ms. Jo Ann C. Scott
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

RE: Bonneville Power Administration's Revised Draft Long-Term Intertie Access Policy

Dear Ms. Scott:

San Diego Gas & Electric Company (SDG&E) submits the following comments on Bonneville Power Administration's (BPA) revised draft Long Term Intertie Access Policy (Policy).

SDG&E has commented before and we reiterate here that we believe BPA's Policy continues to be a poor choice. The policy relies too heavily on administrative controls and mitigation measures that will be unresponsive to the marketplace. These controls and measures will stifle competition, distort prices and hamper cooperation. As such, the Policy will inhibit execution of long term agreements. Finally, the Policy precludes certain transactions such as peaking capacity contracts and capacity energy exchanges.

The Policy includes conditions which would be imposed on a utility in exchange for an assured delivery contract. These conditions, called mitigation measures, are designed to make up for lost BPA revenues due to Intertie capacity not available to BPA. SDG&E believes these mitigation measures are unlawful and inappropriate and should be eliminated. The Intertie is a regional line, not just a BPA line, and by including these conditions, BPA is making it more difficult for another utility to compete for a potential BPA customer. The legislative history of the Regional Preference Act clearly states that the administrator may not decline to enter into a wheeling agreement merely because BPA may have energy to sell to serve the same load. SDG&E believes the mitigation measures are counter to the legislative intent and certainly eliminate the level playing field concept of fair play. We believe that BPA can and should compete with others on a fair and equitable basis. Intertie access must not be entirely governed by BPA's power marketing program, and must not be refused based on the administrator's belief BPA may have energy for sale to serve the same load.

We believe the Policy is too complicated. We suggest BPA simply set aside a fixed amount of intertie capacity needed for its own use and make the remainder available for use by willing buyer and seller utilities on a fair and non-discriminatory basis. Long term firm transmission contracts would be entered into between BPA and Pacific Northwest utilities that would allow for any type of transaction that a buyer and seller utility

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could put together. On an hourly basis, BPA would allocate the Intertie (other than that being used for assured deliveries) in proportion to individual utility surpluses after first reserving what it needed to deliver its actual sales for that hour.

Specific comments follow:

Assured Delivery

1. BPA should provide more than 800 Mw of Assured Delivery. Additional studies should be done, but indications are that at least 1200 Mw may be available. BPA should also provide some Assured Delivery to extra regional utilities since the statutes that provide BPA's authority to administer the Intertie do not permit BPA to discriminate against Canada and other extra-regional utilities.

2. Except as needed for system reliability, there should be no conditions placed on the use of Assured Delivery. Not only should seasonal exchanges be allowed, but also peaking capacity contracts and capacity energy exchanges. Although these types of contracts may not be viable now, to preclude them completely from a long term policy is short-sighted.

Assured Delivery Mitigation

1. The Policy contains numerous operational mitigation measures which we believe unduly complicate system operations. As we have said before, we believe these are unfair, unnecessary and probably unlawful. However, if mitigation is adopted, SDG&E suggests that the policy contain an option of a surcharge in lieu of operational mitigation. A surcharge would remove the cost uncertainties associated with such mitigation.

2. During condition 1, a utility's Assured Delivery amount is deducted from its formula allocation. If this leaves a utility without enough Assured Delivery, the policy requires the utility to purchase sufficient energy from BPA, at BPA's then-applicable rate, to make up the difference. SDG&E is concerned that the price BPA might charge could be uneconomical. SDG&E does not object to purchasing the shortfall from BPA, but believes the price should be no higher than what it would be under the contract. To do otherwise establishes uncertainty that could make a transaction uneconomical.

3. SDG&E believes mitigation for seasonal exchange returns should be eliminated. This is another example of BPA eliminating competition. However, at the very least, there should be no wheeling charge and losses to and from COB or NOB added to return energy purchased from a PNW utility for delivery to another PNW utility.

Formula Allocation

1. Eliminate the provision that BPA will allocate no more capacity than the Southwest market amount during condition 1. This is another way

that BPA assures itself of a market by eliminating competition. This provision will also insure that the intertie will not be fully loaded during spill conditions, thereby wasting national resources.

2. BPA and the California utilities have discussed the possibility of implementing a share-the-savings rate. Since this may occur, we suggest the policy recognize this possibility by establishing a priority allocation for share-the-savings sales.

The construction of the Pacific Intertie has allowed Pacific Southwest and Pacific Northwest utilities the opportunity to participate in mutually beneficial bulk power transactions for more than two decades. Over this time, the customers and ratepayers of those utilities have realized substantial savings from the efficient use of this resource. SDG&E would like this beneficial relationship to continue by utilizing its portion of the intertie for firm power purchases, peaking capacity contracts, capacity energy exchanges and seasonal exchanges. We encourage BPA to adopt a final Policy that is easy to administer, economically efficient and mutually beneficial to both regions.

Sincerely,

James F. Kenney
Manager, Fuel & Power Contracts

JFK:JAW:esg:020888/jaw2

cc: Stan Hulett, CPUC
Charles Imbrecht, CEC

PUBLIC POWER

BENTON COUNTY PUD

FISCAL CONTROL

524 South Auburn Street
P. O. Box 6270
Kennewick, Washington 99336
(509) 582-2175

Public Utility District No. 1 of Benton Co. Washington

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP 3-197
RECEIPT DATE:
FEB 19 1988
AREA: DISTRICT
T (OS)
cc: AL-15

February 17, 1988

Mr. James Jura, Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208

Re: Long Term Intertie Access Policy

Dear Jim:

The District appreciates this opportunity to comment on the Long Term Intertie Access Policy at this stage of its development. These comments generally reinforce the Non-Generating Public Utilities comments which are endorsed by the District, a member of that organization.

The District is an all requirements customer of BPA. As such, we are totally dependent upon BPA for our power requirements, the purchase of which constitutes over 80 percent of our operating expenses. The District has made the decision to continue to rely totally on BPA as our long term supplier of power. We believe BPA will continue to be the least cost and most reliable supplier of power for our needs.

The District recognizes that BPA must be a good business partner with other utilities in the region. However, we do not believe that this should be done at the expense of BPA's revenue. Being a good business partner does not mean that BPA must receive less revenue while other utilities receive more. BPA must protect its revenue sources to maintain rate stability to its all requirements customers. If BPA does decide to allow other utilities to use the intertie, it should only be done at no net loss of revenue to BPA. Some type of mitigation measures must be included in the LTIAP to keep BPA whole regardless of the transaction being considered.

The District also believes that BPA has an obligation to protect the investment made in the fish and wildlife programs. Utilities may construct generation facilities that may negatively impact these programs. The output of such a facility should not be allowed intertie access unless full mitigation of the impacts are made by the constructing utility.

Very truly yours,

Donald R. Clayhold
Manager

DRC/caq

PGE Portland General Electric Company

R. E. Dyer Vice President

BPA
PUBLIC INVOLVEMENT
LOG: LTIAP-3-198
RECEIPT DATE:
FEB 19 1988
AREA: DISTRICT
L (OP)

February 19, 1988

JoAnn C. Scott
Public Involvement Manager
Bonneville Power Administration
905 NE Holladay St
Portland OR 97232

Dear Ms. Scott:

Portland General Electric (PGE) submits the following comments regarding the Long-Term Intertie Access Policy in response to comments submitted on February 5, 1988. Thank you for the opportunity to comment.

Sincerely,

Enclosures

121 SW Salmon Street, Portland, Oregon 97204

Portland General Electric Comments in Response to Feb. 5
Long Term Intertie Access Policy Comments

PGE would like to respond to some of the comments made by the Western Public Agencies Group (WPAG) and the Public Generating Pool (PGP), Log numbers LTIAP-3-123 and LTIAP-3-124.

WPAG suggests on page 11 that the LTIAP contain language requiring that nonfederal utilities use their own Intertie capacity fully before obtaining Assured Delivery over federal Intertie capacity. WPAG is concerned that a utility's owned capacity will be used to transact nonfirm sales, while federal capacity will be used for firm sales. This concern is not supported by the historic or prospective utilization of Intertie capability by nonfederal owners, and ignores the differential market access associated with the different Intertie lines. The fact is that an owner's capacity in the AC does not reach the same markets as does the DC Intertie. To the extent that PGE, for example, possesses AC Intertie capability with which it can reach target markets in the Southwest, it is able to utilize its own Intertie rights. However, provisions in the LTIAP which preclude nonfederal owners from accessing markets which they are not able to serve over their own Intertie capacity were clearly not considered in WPAG's discussion.

A restriction that insists that a utility fully utilize its own capacity prior to obtaining Assured Delivery arbitrarily restricts those owners from selling to utilities accessible over the DC. A similar market restriction is not placed upon nonowners. This subject has been previously discussed in PGE's comments submitted Feb. 5, 1988. An analogous provision to the one suggested in the WPAG comments, and one which PGE similarly does not support, would require utilities without ownership of Intertie capacity to fully utilize their nonfirm allocation of federal Intertie prior to receiving firm Assured Delivery.

The PGP comments on page 5 that it supports the language in section 3(d), which requires a utility with ownership or contractual rights to transmission capacity to Southwest utilities to fully utilize such capacity prior to receiving <u>any</u> access to BPA Intertie Capacity (emphasis added). PGE does not support the proposed language and has previously stated its objections on Feb. 5. As above, PGE argues that such restrictions arbitrarily allocate to a market. In addition, the restriction is discriminatory as well as unfair under the Federal Columbia River Transmission System Act.

PGP qualifies its support for the provisions of section 3(d) in that the PGP recognizes it is applicable only to the existing Intertie owners and shall not affect ownership or access of the 3rd AC line or other future transmission investments. PGE supported development of the AC Intertie during conditions of uncertainty and risk, where the technical, operational and economic viability of the Intertie project were questionable, at best. PGE invested at the early stages of development without proven return and without the benefit of the underlying Intertie system, years of development and maturation of markets. To apply the provisions of 3(d) only to existing owners discriminates against those who assumed a risk at an early stage, and rewards those who wish to enjoy the more assured benefits of the 3rd AC. PGE recommends that Bonneville refrain from releasing a Policy which supports such lopsided incentives.

Additionally, PGE believes that enforcing such a provision is impractical. The existing AC Intertie and 3rd AC will be operated as one system. Bonneville has stated that it considers the Intertie system to consist of both the AC and the DC lines. When the 3rd AC is completed, capacity on the new line will be operationally indistinguishable from that on the existing line.

The LTIAP will govern the entire federal Intertie system, including the existing AC, the 3rd AC, the existing DC, and the DC Terminal Upgrade. PGE strongly recommends that the policy be equitable to all Northwest scheduling utilities, as is suggested in PGE's prior comments.

STATE OF CALIFORNIA GEORGE DEUKMEJIAN, Governor

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-199
RECEIPT DATE:
FEB 19 1988
AREA: DISTRICT
P-3

February 19, 1988

Jo Ann C. Scott
Public Involvement Manager
Bonneville Power Administration
908 N.E. 11th Street
Portland, Oregon 97232

Re: Revised Draft Long Term Intertie Access Policy

Dear Ms. Scott:

The California Public Utilities Commission ("CPUC") submits the following comments in response to notice issued in the above-captioned proceeding by the Bonneville Power Administration ("BPA") on December 15, 1987.

INTRODUCTION

In October, 1986, the BPA released for public comment a draft Long Term Intertie Access Policy ("LTIAP I"), together with a document entitled Draft Environmental Impact Statement on Intertie Development and Use ("DEIS/IDU"). According to the BPA, such a policy is needed to enable the transfer of federal and nonfederal power between the Pacific Northwest and the Pacific Southwest over federally-controlled portions of the Pacific Intertie. DEIS/IDU at 1-1. As set forth in the DEIS/IDU, the BPA will consider the following purposes in developing a final LTIAP:

(1) Enhance BPA's ability to repay the U.S. Treasury for the Federal investment in a timely manner;

(2) Support acceptable environmental quality;

(3) Support the Administrator's ability to maintain reasonable power rates for BPA's customers in the PNW;

(4) Allocate equitably access to Intertie capacity in excess of that the Administrator determines is required for BPA use;

(5) Provide an opportunity for long-term assured access to enable long-term firm power or firm capacity transactions; and

(6) Achieve consistency with other National environmental policies.

Id.

On December 15, 1987, the BPA released for public comment a revised draft of LTIAP I ("LTIAP II"). Changes from LTIAP I were proposed regarding access for firm power ("Assured Delivery") and nonfirm energy ("Formula Allocation"). As explained in the narrative accompanying LTIAP II, these changes are intended to accomplish two purposes: (1) "provide greater specificity to give utilities in the Northwest and California with greater planning certainty" and (2) "provide more revenue protection for BPA, while providing Assured Delivery for a wider variety of transactions than [LTIAP I]." Explanation of BPA's Revised Draft Long Term Intertie Access Policy ("Explanation") at 1.

The BPA proposes to provide some 800 megawatts of Assured Delivery under LTIAP II, consisting of 361 megawatts for firm transactions and 440 megawatts for seasonal exchanges. At the same time, the BPA would impose certain conditions in order to mitigate the loss of revenues it perceives would occur by providing such access. Explanation at 4. First, to offset the revenues the BPA believes it could otherwise gain by selling nonfirm energy, each scheduling utility would be required to deduct its Assured Delivery from its Formula Allocation whenever Condition 1 of Formula Allocation is in effect. Id. at 4-5. Furthermore, to the extent that its Assured Delivery exceeds its Formula Allocation, each scheduling utility would be required to purchase nonfirm energy from the BPA at the BPA's then-applicable rate. Id. at 5. Second, to increase the size of the market the BPA would, with respect to seasonal exchanges, (1) require that all energy which is to be returned by a participating utility in the Pacific Southwest be delivered at the point of interconnection with the Pacific Northwest at the border between either California and Oregon or Nevada and Oregon and (2) prohibit any participating utility in the Pacific Northwest from accepting a monetary payment in lieu of energy whenever Conditions 1 or 2 are in effect. Id.

Formula Allocation under LTIAP II would retain much of the methodology used in the existing Near Term Intertie Access Policy ("NTIAP"). During times of spill or likely spill in the Pacific Northwest, access to the Pacific Intertie would continue to be provided as under Condition 1 until expiration of the Exportable Energy Agreement on December 31, 1988. After that date, the allocation received by the BPA and each scheduling utility would be based on the ratio of its hydroelectric generating capacity to the total hydroelectric generating capacity in the Pacific Northwest. Id. at 8.

The BPA offers three reasons in support of its procedures for Formula Allocation. First, any change in those procedures which reduces revenues received by scheduling utilities in the Pacific Northwest who participate in the residential exchange provided by Section 5(c) of the Pacific Northwest Electric Power Planning and Conservation Act, 16 U.S.C. §§839 et seq., would increase the subsidy they are paid by the BPA. Id. at 9. Second, any such change which reduces sales by the BPA's preference customers would cause them to use their unsold energy to displace purchases from the BPA. Id. Third, according to the BPA, Formula Allocation is necessary as an immediate means by which to counteract "California utility market concentration." Id.

DISCUSSION

The BPA has a duty to consider the effects on competition of any policy it may adopt providing for access to the Pacific Intertie: "Congress specifically articulated its intent that BPA operate its transmission lines in part 'to prevent the monopolization thereof by limited groups.'" California Energy Resources Conservation and Development Commission v. BPA, 831 F.2d 1467, 1475 (9th Cir. 1987). Such a duty demands that the BPA "harmonize antitrust and regulatory principles." Latin American/Pacific Coast Steamship Conference v. Federal Maritime Commission, 465 F.2d 542, 547 (D.C. Cir. 1972), cert. denied, 409 U.S. 967 (1972). It must demonstrate, in other words, that the policy it ultimately adopts represents the least anticompetitive means for achieving its various statutory purposes.

That LTIAP II represents nothing less than an attempt on the part of the BPA to exercise monopolistic control over the Pacific Intertie cannot be seriously denied. As is the case under NTIAP,

> The result is a regularly shifting, horizontal division of the market for surplus nonfirm energy; each eligible producer is temporarily granted sole access to a specified share of the capacity, which it may either use or allow to remain unused without fear of competition by other producers

California Energy Resources Conservation and Development Commission v. BPA, supra, 831 F.2d at 1475. None of the objectives claimed by the BPA justifies this result.

The BPA asserts that LTIAP II is necessary in order to provide better protection for its revenues. In truth, however, the ability of the BPA to repay the United States Treasury is unaffected by whatever policy it may adopt regarding access to the Pacific Intertie. If it fails to collect projected revenues from California, the BPA need merely adjust the rates charged its customers in the Pacific Northwest. This is precisely the eventuality the BPA anticipated in developing the Cost Recovery

Adjustment Clause ("CRAC") as part of the rate schedules established on October 1, 1987. As the BPA explained at that time,

> A CRAC ... is included in 1987 wholesale power rate schedules in order to provide added assurance of cost recovery from current customers without substantially overrecovering costs during the rate period.

Administrator's Record of Decision at 53.

The failure of the BPA to acknowledge this fact is compounded by its refusal to undertake any meaningful study, much less conduct an evidentiary hearing. The only attempts the BPA has so far made to investigate the financial consequences of its various proposals must be considered self-serving and unreliable. On June 1, 1985, the BPA released a study analyzing the first four months' experience under NTIAP, concluding that its revenues from the sale of electrical power to California had increased by some $60 million over the same period one year earlier. In reaching this conclusion, however, the BPA ignored that demand was less in California during 1983 relative to 1984 due greater rainfall and lower temperatures and that supply of nonfirm energy was greater in that the Pacific Northwest during 1983 as compared with 1984. Equally misleading is the DEIS/IDU released by the BPA in October, 1986, assessing the environmental consequences of various plans to increase the capacity of the Pacific Intertie and to regulate its use. In particular, this study errs in focusing on the Pacific Northwest as a whole, rather than exclusively on the BPA; in mixing together expansion of the Pacific Intertie and regulation of its use, rather than considering these topics separately; in ignoring the ability of the BPA to obtain from its customers in the Pacific Northwest any revenues it cannot collect from California; and in failing to consider open access to the Pacific Intertie as a possible alternative.

In the absence of any analytical justification, therefore, the need asserted by the BPA for the restrictions it would impose on sales of firm power and nonfirm energy is at best a matter of conjecture. With respect to Assured Delivery just how much revenue would the BPA otherwise gain from selling nonfirm energy? By how much exactly would the market increase as a result of the restrictions the BPA would impose on seasonal exchanges? The record is silent.

The attempt by the BPA to justify Formula Allocation by linking its financial responsibilities to the revenues and costs of its customers in the Pacific Northwest is similarly flawed. How much less revenue would participants in the residential exchange in fact receive under a regime of open access to the Pacific Intertie? Might they not receive more? Correspondingly, if they

would receive less by making fewer sales, would not the BPA in turn receive more? Similarly, to what extent would the BPA's preference customers do better or worse under open access? Again, the record is silent.

Nor has the BPA supported its claim that LTIAP II is somehow necessary to counteract arrangements which govern operation of the Pacific Intertie in California. As discussed at length in the initial decision issued in Pacific Gas and Electric Co., 26 FERC ¶63,048 (1984), the federal government was the principal force behind these arrangements. Without its direction and approval, the Pacific Intertie would not have been constructed. Id. In view of this background, the initial decision would provide only interruptible access to the Pacific Intertie for publicly-owned utilities in California. Id. Moreover, it was careful to require that such access not interfere with use of the Pacific Intertie by its legal owners, impair reliability, or be inconsistent with prudent operation -- a nearly identical arrangement to that existing in the Pacific Northwest prior to the BPA's institution of the NTIAP. Id.

Equally unsupported is the attempt by the BPA to "maintain reasonable power rates" for customers in the Pacific Northwest. Such an attempt represents direct contravention of the fundamental purpose for which the Pacific Intertie was constructed. Thus, under Section 5 of the Flood Control Act of 1944, the BPA is directed to achieve the widest possible use of electric power at the lowest possible rates to consumers -- not just in the Pacific Northwest, but throughout the Western United States. 16 U.S.C. §825s. In particular, consumers in California have borne their fair share of the costs of constructing the Pacific Intertie; they should not now be denied their fair share of the benefits of its operation.

Hardly equitable by any stretch of the imagination is the BPA's proposal to allocate the capacity of the Pacific Intertie on the basis of fixed, proportionate shares. True enough, under Section 6 of the Pacific Northwest Consumer Power Preference Act ("Regional Preference Act"), the BPA is authorized to reserve such capacity as it may need to transmit federal energy outside the Pacific Northwest. 16 U.S.C. §837e. As explained in the legislative history of this statue, however,

> In determining the existence of capacity excess to the needs of the Government, Federal needs reasonably foreseeable may be included, but the Administrator may not decline to enter into wheeling agreements merely because he may have energy available to serve the same load.

H.R. Rep. No. 590, 88th Cong., 2d Sess., 1964 U.S. Code Cong. & Ad. News at 3350. Rather, once its legitimate needs have been met, the BPA is required to transmit electric energy for any utility in the Pacific Northwest or Canada that can arrange a transaction with the Pacific Southwest. 16 U.S.C. §837e. After all, Congress intended that the Pacific Intertie be used at least in part for the benefit of utilities in the Pacific Southwest. Department of Water and Power of the City of Los Angeles v. BPA, 759 F.2d 684, 694 (9th Cir. 1985). It did not intend that the BPA monopolize the Pacific Intertie so as to deny them free access to their counterparts in the Pacific Northwest and Canada. 16 U.S.C. §832(b).

The BPA has failed to justify LTIAP II as necessary to enable new contracts for firm power. Indeed, not only is the access the BPA would provide through Assured Delivery merely some fraction of that which it had earlier taken away, but the restrictive conditions proposed for Assured Delivery effectively insure that even this amount unavailable. Moreover, the BPA has failed to explain, other than to speculate in an unfounded way that its ability to collect sufficient revenues may somehow be affected, why any restriction on firm transactions is required. Does it still assert, as it did in adopting NTIAP, that demands for access to the Pacific Intertie exceed available capacity? See 49 Fed. Reg. 44234 (November 4, 1984). If so, the BPA has presented no evidence why this would be so. In reality, prior to the institution of the NTIAP, no need whatsoever existed for the BPA's intervention to facilitiate sales of firm power. Rather, during that earlier era, utilities in the Pacific Northwest and California were fully capable of deciding by themselves whether to buy and sell firm or nonfirm energy.

A final consideration demonstrates the waste and inefficiency of the BPA's proposal. Over the last several years, the BPA has engaged in a systematic program to collect ever greater revenues from the sale of nonfirm energy to its customers in California, even though the cost of providing them service has remained essentially unchanged. LTIAP II represents the latest step in this process. At some point, unless this trend is reversed, California will cease to consider the BPA an economic source of supply.

The BPA should bear in mind that, for California, a wide variety of alternatives exists, including indigenous resources and the Inland Southwest. In fact, with the recent addition of powerplants at San Onofre, Diablo Canyon, and Palo Verde, together with greatly reduced prices for oil and natural gas, California's immediate interest in electrical power from the BPA has been substantially reduced. Over the longer term, qualifying facilities stand ready to meet any additional need.

By contrast, the BPA has no economic alternative to selling its surplus energy to California. In most years, the BPA's reservoirs lack sufficient capacity to store for later use the entire runoff from the previous winter's showpack, thus necessitating the release of large quantities of water. Under these circumstances, since its cost of generation is essentially zero, the BPA stands to gain financially at virtually any price if it uses this water to produce nonfirm energy for sale to California. Alternatively, if it refuses to make such sales, as was its choice so often during 1986, the BPA can only spill this water to the sea.

CONCLUSION

Given the great importance of this matter, both for the Pacific Northwest in managing its surplus resources and for California in developing its various sources of electric supply, the CPUC urges the BPA to lay the foundation now for a lasting era of interregional cooperation by removing the restrictions it has imposed on access to the Pacific Intertie.

Sincerely,

Peter G. Fairchild

Peter G. Fairchild
Principal Counsel

PGF:bjk

EUGENE MUNICIPAL UTILITIES
EUGENE WATER & ELECTRIC BOARD
500 EAST 4TH AVE / P.O. BOX 10148 / EUGENE, OR 97440-2148 / 503-484-2411

COMMISSIONERS
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RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-300
RECEIPT DATE:
FEB 19 1988
AREA: DISTRICT
LG (CPG)

February 19, 1988

Donna Lou Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland OR 97212

Dear Ms. Geiger:

This letter is in response to your request for cross-comments regarding BPA's Revised Draft Long-Term Intertie Access Policy. We appreciate the opportunities we have had to participate in the process surrounding the development of the Intertie Access Policy. We view the policy as a key component of overall Northwest energy policy and, in general, we have been pleased with the contents of BPA's Draft LTIAP.

After review of the previous round of comments, several issues emerged that are of special concern to us:

- Mitigation must be retained to compensate BPA and nonfederal utilities for losses of nonfirm sales resulting from Assured Delivery that provides for firm sales and exchanges.
- The Hydro Cap must be retained in the methodology of Condition 1 Formula Allocation to prevent unnecessary hydro spill.
- The definition of "Scheduling Utility" should be revised to include EWEB.
- EWEB's Exhibit B amount should be revised from 14 to 34 average megawatts to accurately reflect EWEB's actual average firm energy surplus.

We have attached our detailed comments. Please note that we have chosen a format that paraphrases positions of various commentors, by major topic, followed by our cross-comment.

Sincerely,

Jean Reeder
General Manager

EWEB CROSS-COMMENTS
ON
BPA'S REVISED DRAFT LONG-TERM INTERTIE ACCESS POLICY

GENERAL:

Puget Power:

BPA should not gain Intertie access priority through access restrictions placed on nonfederal utilities.

EWEB:

The federally owned Intertie can and should be managed by BPA in ways that will generate revenues adequate to repay its U.S. Treasury debt, minimize its other revenue requirements, and maintain a stable Priority Firm rate.

Puget Power:

The policy should not have limits and conditions restricting Intertie access for specific types of transactions.

EWEB:

BPA is correct to limit transaction amounts and to place conditions on Intertie access for firm power sales and exchanges by nonfederal utilities. The limits and conditions as proposed in the draft LTIAP are key to BPA's ability to manage the level of Assured Deliveries on the Intertie. Assured Deliveries have a direct economic impact on BPA's ability to market its surplus power, which must be maintained in order for BPA to continue to provide competitive Priority Firm rates and to meet its U.S. Treasury repayment obligations.

MITIGATION:

Montana Power:

The mitigation concept proposed by BPA is improper and inconsistent with its responsibilities.

EWEB:

BPA has a responsibility to its Priority Firm purchasers to minimize revenue losses as a result of the development of a revised LTIAP. As part of its responsibility, BPA must protect its ability to market its own surplus power.

Congressional intent at the time of federal Intertie funding appropriation requires BPA to allocate use of its transmission facilities in a manner that gives preference to transmission of federal power over other users of the Intertie. To the extent that terms and conditions in the proposed LTIAP require occasional nonconformance with federal preference, BPA's mitigation approach appropriately reduces its exposure to revenue loss.

Montana Power:

If mitigation is required, it should be in the form of a fixed surcharge in addition to a facilities charge.

Puget Power:

BPA is obligated to provide Intertie capacity at rates based on the cost of the Intertie.

EWEB:

Mitigation provisions must be sufficient to hold BPA and its customers harmless. A fixed surcharge does not reflect the varying impacts of multiple types of Intertie transactions. BPA should review each power transaction to determine the actual costs to BPA and its customers. Operational mitigation, as proposed, would give BPA and nonfederal utilities the greatest protection from revenue losses associated with reduced sales of surplus power.

Intertie charges based only on facility are inadequate to mitigate BPA's revenue losses resulting from Assured Deliveries. In fact, Intertie access for Assured Deliveries brings new costs to both BPA

and other nonfederal utilities because of lost access to nonfirm markets. Such costs must be recovered and provided for in any acceptable mitigation procedure.

Montana Power:

The policy should excuse Montana from any costs of mitigation.

EWEB:

Montana Power has shown no basis to be excused from costs of mitigation. The existence of a 9(i)3 resource in conjunction with BPA's legal requirements to wheel does not provide a basis for those costs to be paid by the Region. BPA should treat Montana's Assured Delivery no differently than any other Assured Delivery.

Puget Power:

The required purchase of "mitigation energy" from BPA during Condition 1 is unnecessary and unfair.

EWEB:

The proposed "mitigation energy" purchase requirement should be retained. For example, the proposed policy requires a utility with an Assured Delivery of 50 MW during Condition 1 that receives only 30 MW under the Formula Allocation Procedure would be required to purchase 20 MW from BPA to meet the utility's 50 MW Assured Delivery obligation. The proposed purchase requirement is appropriate in order to assure a BPA market for the 20 MW that the vagaries of the Formula Allocation Procedure would have otherwise caused them to lose.

FORMULA ALLOCATION:

Montana Power:

Formula Allocation should be provided for without the Hydro Cap.

Intercompany Pool:

The Hydro Cap is irrelevant to an allocation of energy surplus.

Pacific Power:

The Hydro Cap unfairly penalizes utilities who have thermal resources and should be eliminated.

State of Oregon:

All resources with a variable cost lower than the BPA nonfirm rate should be used to allocate Intertie capacity during Condition 1.

EWEB:

The Hydro Cap is the appropriate method of allocating Intertie capacity while BPA is in a spill condition. While thermal generation can be reduced and the associated fuel can be stored for later use, it is impossible to reduce hydro generation during spill periods or to store the associated water for later use. The IOU's argue that the Hydro Cap is irrelevant to an allocation of Intertie capacity based on energy surplus. In fact, just the opposite is true. It is irrelevant and irresponsible to include thermal generation in the allocation of Intertie capacity while the Northwest's hydro resources are being spilled. To suggest that allocation be based on the variable cost of resources ignores the fact that valuable, non-storable hydro energy would be irreversibly lost if spilled.

Intercompany Pool:

Formula Allocation under Condition 1 should be allocated to Intertie capacity rather than to the Southwest market.

EWEB:

Formula Allocation under Condition 1 should be allocated to the Southwest market rather than to Intertie capacity because to do otherwise would take unfair advantage of BPA's rights in the nonfirm

market and, under BPA's new transmission policy, would require non-federal utilities to pay wheeling payments on allocation--not actual wheeling.

First, allocation to Intertie Capacity would result in inflated allocations as compared to the actual market potential and, second, market practices would result in continual undercutting of BPA's nonfirm prices by nonfederal utilities that have a need to move their own nonfirm energy and to ensure that they wheel power equal to their "allocated wheeling charge."

Allocating to the Southwest market will assure BPA a fair share of the market, thus providing a measure of federal revenue protection by reducing nonfederal opportunities to undercut price. Second, non-federal utilities will avoid the need to pay for wheeling costs associated with allocations that are greater than the market.

DEFINITIONS:

Cowlitz:

The definition of "Scheduling Utility" should be changed to include Cowlitz County P.U.D.

EWEB:

The definition of "Scheduling Utility" should be changed to clearly include Cowlitz and EWEB. The existing language excludes EWEB and as a result substantially impacts our treatment under the policy. EWEB operates as a scheduling utility and should be treated as such under the policy. BPA staff agreed at a January 6 clarification meeting that their definition should not have excluded EWEB and Cowlitz, and that corrected language would appear in the final LTIAP.

ASSURED DELIVERY:

Public Generating Pool:

Exhibit B of the policy should be revised for accuracy to include EWEB's Willamette Steam Plant.

EWEB:

In clarification of PGP's comment regarding EWEB's Willamette Steam Plant, EWEB's Exhibit B Average Firm Surplus amount should be increased from 14 average megawatts to 34 average megawatts to reflect the addition of the Willamette Steam Plant. This plant is a 30 year-old renewable generating resource and is currently being operated, contributing to EWEB's firm surplus.

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RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-201
RECEIPT DATE:
FEB 19 1988
AREA: DISTRICT
T (OS)

February 19, 1988

Bonneville Power Administration
Public Involvement Coordinator
P. O. Box 12999
Portland, Oregon 97212

Gentlemen:

Enclosed please find a copy of Cross Comments of the Western Public Agencies Group on the Long-Term Intertie Access Policy.

Very truly yours,

MARSH, MUNDORF & PRATT

Terence L. Mundorf

TLM:ps
enclosure

CROSS COMMENTS OF THE WESTERN PUBLIC AGENCIES GROUP ON THE LONG-TERM INTERTIE ACCESS POLICY

I. Introduction

The Western Public Agencies Group (WPAG) submits the following cross comments on the revised draft Long-Term Intertie Access Policy (LTIAP).

The comments submitted to date on the revised draft LTIAP make it abundantly clear that the LTIAP has been reduced to an argument over which regional utilities will capture the bulk of the economic benefits of the transactions with the Southwest, and who will shoulder the costs of those transactions. The record amply demonstrates that the Southwest market is finite, and subject to increasing competition. To the extent non-federal utilities increase their share of that market, BPA will suffer revenue losses from foregone sales both in the Southwest and the Northwest. This will result in greater benefits to a small group of generating utilities, and higher rates to all of BPA's other customers.

During the course of this LTIAP process, BPA has gone to extraordinary lengths to accommodate the desires of regional generating utilities, even to the point of proposing compromises in derogation of its statutory duties. Unfortunately, these efforts at compromise by BPA have not produced satisfactory resolutions, but seem only to whet the appetites for more concessions, and encourage efforts to shift additional costs to BPA. It is apparent that further efforts to strike reasonable compromises will only be met with additional demands, and will be unproductive. It is now time for BPA to say enough is enough, and promulgate a LTIAP which is fully consistent with BPA's statutory duty to manage the Intertie to ensure BPA's fiscal integrity and protect BPA's financial position.

The comments submitted by regional generating utilities raised a number of legal, policy and technical arguments seeking to increase their access to federal Intertie capacity, and secure a larger share of the Southwest market at minimal cost.[1/] The

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1/ No comments were submitted in the initial round by California utilities or regulators. Apparently they are unwilling to subject their positions to critical scrutiny by other parties.

comments which follow will address these arguments. They will begin with a section addressing BPA's legal rights and obligations. This will be followed by sections on mitigation, Formula Allocation, the amount of Intertie made available for Assured Delivery, and the use of non-federal Intertie capacity.

2. Legal Precedent Requires BPA to Exercise Priority to Intertie Capacity

Regional generating utilities present a number of legal arguments purporting to prove that any meaningful limitation on their access to federal Intertie capacity is unfair and discriminatory, even if it is done to protect BPA's fiscal integrity and enhance surety of repayment. At least some appear to argue that the Intertie is a regional resource, and that federal and non-federal power should have to compete for access to the facility. Under this approach, it is BPA's duty to promote non-federal transactions regardless of their cost to BPA, and under no circumstances is BPA to exercise priority to federal Intertie capacity.

These arguments are predicated on a very careful parsing of existing statutes, they ignore clear rulings by the Ninth Circuit, and they are legally wrong. As stated by that Court;

> . . . BPA is required to allocate use of federally owned transmission facilities in a manner which accords preference first to transmission of federal power . . . (Department of Water and Power v. Bonneville Power Administration, 759 F.2d 684, 695 (1985).

This priority attaches to Intertie capacity required for both present and foreseeable future needs of BPA (Id. at 692). Non-federal utilities are only permitted access on a fair and non-discriminatory basis to such Intertie capacity, if any, as is excess to federal needs.

This federal priority to Intertie capacity is not a matter of discretion, but is a legal obligation of BPA. As stated by the Ninth Circuit:

> In allocating Intertie capacity, BPA is statutorily required to give itself priority. (California Energy Commission v. Jura, Slip Opinion, November 6, 1987, p. 4).

The only way that BPA can share this priority with non-federal utilities in a manner consistent with this statutory obligation is to obtain from the non-federal utility full payment for the federal sales, firm and nonfirm, which are displaced by the non-federal transaction. BPA has a statutory duty to collect such reimbursement from non-federal utilities, and failure to do so violates the law.

3. Efforts to Dilute the Financial Mitigation Measures will Jeopardize the Legal Sufficiency of the LTIAP

The financial mitigation measures contained in the revised draft LTIAP have been attacked on a variety of grounds. It is argued that the mitigation measures are illegal, are too costly, will kill good deals, and will collect far too much money. Although many general accusations are made, very few specifics are provided.

Interestingly, none of the utilities which criticize the proposed financial mitigation measures has provided an alternative study showing that BPA's revenue impact analysis is in error. Further, no meaningful technical criticism of BPA's study was presented in the first round of comments. As the record now stands, BPA has demonstrated that non-federal transactions will displace federal sales, and will result in foregone revenues to BPA in excess of $350 million.

Generating utilities find themselves in the awkward position of arguing that they wish to make export transactions which will bring substantial economic benefits to the region, but that these transactions cannot bear even a modest charge to offset BPA's foregone revenues. Such a position is untenable. Indirect evidence indicates that these proposed non-federal transactions can bear the reasonable costs of mitigating BPA's financial losses. For example, in its initial comments the Washington Water Power company stated that its exchange with PG&E would result in $12 million in power cost savings in the first year alone. And yet, Washington Water Power objects to paying the modest surcharge proposed by BPA to cover only a small portion of its projected revenue loss. It appears that the generating utilities are attempting to shift as many transaction costs as possible to BPA and its other customers, in order to increase the benefits of export transactions to their ratepayers.

The record contains an uncontroverted analysis which demonstrates that non-federal transactions will cause BPA to lose over $350 million, and it does not attempt to account for known and determinable revenue losses, such as those caused by Formula Allocation. This amount is a very conservative estimate of BPA's foregone revenues under the proposed LTIAP. BPA recently released an analysis (Cameron letter, February 11, 1988) which shows that BPA could suffer an additional annual revenue losses of about $16 million from nonfirm displacement and increased Residential Exchange costs, depending upon the operating strategies of the generating utilities. The currently proposed mitigation package contained in the revised draft LTIAP only covers a small fraction of the forecast revenue losses likely to be experienced by BPA, and does not even address the additional revenue losses identified in BPA's most recent analysis. And yet there is persistent objection by Northwest and Southwest generating utilities to paying even the modest mitigation amount currently being proposed.

It should be apparent to BPA that further concessions will not resolve this problem. It is time for BPA to set a mitigation charge which will fully compensate BPA for firm and nonfirm losses, and let it operate. Good deals which require no subsidy will go through, and bad deals which must be subsidized by BPA to be economic will not be consummated. This approach would allow the market to determine the viability of transactions,and would be consistent with BPA's statutory duties. And in the long run, BPA and the region will be better off for having foregone uneconomic transactions.

4. Formula Allocation
Must Pay its Own Way

Virtually all generating utilities support continuation of some version of Formula Allocation. This approach is understandable, since Formula Allocation artificially constricts BPA's access to the nonfirm market in order to preserve a portion of that market for non-federal utilities. Formula Allocation provides a substantial financial windfall for non-federal generating utilities, and represents a large revenue loss to BPA.

As of the end of 1988, BPA will have no contractual obligation to continue this sharing of federal Intertie capacity with non-federal entities. Further, continuing this practice beyond the expiration of the Exportable Agreement will conflict with BPA's statutory duty to exercise its priority to Intertie capacity. Although BPA has declined to analyze this issue, it appears that continuation of Formula Allocation will cause BPA to lose about $50 million annually.

It is time for BPA to discontinue this practice of giving up federal Intertie capacity it could utilize in order to facilitate non-federal sales. In this period of severe budget reductions, increased Congressional scrutiny and potential rate increases, there is no justification for continuing to forego these revenues. BPA should either commence a policy under which to take whatever amount of Intertie capacity it needs for nonfirm sales, or imposes a fixed per kilowatt charge on non-federal utilities to reimburse it for revenues foregone due to operation of the Formula Allocation provisions. Nothing less will satisfy BPA statutory obligation and its duties to its other customers.

5. The Amount of Intertie Dedicated to Assured Delivery Should Not be Increased

BPA originally proposed making over 400 megawatts of Intertie available to non-federal utilities. That proposal has been nearly doubled to 800 megawatts. Some regional generators now seek to nearly triple that amount to 1200 megawatts (ICP Comments, p. 10), while others advocate removal of all limits (Puget Power Comments, p. 6). Some generating utilities are willing to abide temporarily with the 800 megawatt limit, but seek to obligate BPA to increase that amount if the Third A.C. becomes operational (PGP Comments, p. 6).

Simply stated, BPA must set some limit on how much federal Intertie capacity it is willing to surrender for non-federal transactions. As matters now stand, BPA is giving up 800 megawatts for Assured Delivery, perhaps another 100 megawatts to Montana Power, and a 100 megawatts to assorted transactions (Tacoma City Light, Cowlitz PUD, PNGC). Over 1000 megawatts is sufficient at this time, particularly in light of the fact that this amount is what the utilities themselves indicated that they will need.

The record contains no analysis to assess the potential revenue impacts to BPA of increasing the amount of Intertie capacity made available to non-federal utilities beyond 800 megawatts. Further, BPA has declined to study what financial impacts 800 megawatts of Assured Delivery will have on BPA should the Third A.C. be delayed or not built at all. Without such analysis, and in the absence of any demonstrable need, it would be extremely imprudent for BPA to increase the amount of Intertie being made available for Assured Delivery. BPA has gone far enough for now.

6. Non-Federal Utilities Must be Required to Fully Utilize Their Own Intertie Capacity

BPA has made a reasonable proposal that utilities with Intertie capacity use their own capacity first before seeking access to the federal Intertie. This proposal has provoked vigorous protests from a number of utilities, some of whom have characterized it as a "show stopper". At best, it is difficult to understand their position. Perhaps the vigor with which this position is presented is a measure of the lack of merit from which it suffers.

It seems apparent that there can only be two reasons why an Intertie owner would seek access to the federal Intertie. First, it may wish to reserve its Intertie capacity for other transactions, such as spot market sales. And second, it may be that its Intertie does not connect it to a viable market, and it is only by use of the federal Intertie that it can reach interested buyers. Although we are sympathetic to a utility's desire to access the best available market, no plausible reason has been advanced why BPA should establish a policy which permits non-federal Intertie owners to displace BPA from markets accessed by the federal Intertie. When regional utilities assumed ownership responsibility for Intertie capacity, they accepted both benefits and burdens. They should not now be permitted to displace BPA sales merely because their Intertie capacity accesses the wrong market.

As for preserving privately held Intertie capacity while placing firm transactions on the federal Intertie, it is understandable why a generating utility would seek such a marketing advantage. However, establishing a LTIAP which permits private Intertie owners to displace BPA from both firm and nonfirm markets is wholly inconsistent with BPA's legal duty to manage the federal Intertie to ensure BPA's fiscal integrity.

The requirement that non-federal Intertie owners be required to use their capacity first is reasonable and places BPA and non-federal owners on an equal footing. This provision should be retained.

PNUCC

PACIFIC NORTHWEST UTILITIES CONFERENCE COMMITTEE

February 19, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG LTIAP-3-202.
FEB 19 1988
DISTRICT
L (OR)

Donna Geiger
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212-0999

Dear Donna:

PNUCC appreciates this opportunity to comment again on BPA's draft Long-Term Intertie Access Policy. In these comments we first address the three questions raised by John Cameron in his February 11, 1988 letter. Then, our cross-comments are provided in response to the positions of other parties who commented on the IAP fish and wildlife provisions.

Response to BPA's Questions

The February 11 letter questions 1) the ability of public utility commissions to address utility concerns regarding loss of benefits associated with intertie access due to PURPA resources in protected areas, 2) the applicability of IAP fish and wildlife provisions to existing resources, and 3) the definition of existing resource. These questions assume that the protected areas concept is the appropriate measure to protect fish and wildlife resources from hydroelectric development. As stated later in our comments, we believe the protected areas concept is unnecessary and inappropriate to include in the IAP. Therefore, the following responses to the questions assume that some fish and wildlife protective measures will be included in the IAP, but not necessarily the protective areas concept.

First, the Washington Utilities and Transportation Commission states that it will address utility concerns by adjusting avoided costs to reflect the loss of benefits associated with intertie access. PNUCC members are not comforted by this statement. The PUCs do not have the authority to bind themselves or future commissions to evaluate PURPA resources in this manner. While a PUC may state that it will review the economic benefits of future resources using such criteria, this does not constitute a binding precedent on current or future commission decisions. This lack of certainty does not assure us that an environmentally harmful PURPA resource will not be forced on a utility resulting in that utility being penalized through the IAP. In addition, Southwest utilities contracting with a Northwest utility under such IAP requirements cannot be assured that its interests will be protected.

Moreover, there are inconsistencies between state commissions. For example, while the WUTC firmly states its intention to exclude benefits associated with intertie access for PURPA resources, the Idaho PUC does not want to be placed in the position where its method of calculating avoided costs decides the feasibility of a PURPA resource. These two differing positions illustrate the possible inconsistencies between PUC interpretations of their legal authorities to address loss of benefits associated with intertie access.

Further, utilities should not be penalized for the actions of state or federal regulatory bodies. Should a PUC decision force a utility to accept an environmentally damaging PURPA resource, BPA should not penalize that utility for the PUC's decision. BPA's recourse must be with the state PUC, not the utility.

Second, the Council suggests that BPA should allow intertie access for resources that are consistent with the Fish and Wildlife Program and, conversely, not allow access for projects that are not consistent with the program. The Council believes this position removes the need for BPA to adopt a special procedure for examining existing projects located in protected areas after their FERC licenses expire. PNUCC disagrees with BPA attempting to determine consistency of non-federal projects, however, FERC must determine whether an existing resource is consistent with the Fish and Wildlife Program at the time of relicensing. Only FERC has the authority to make determinations on fish and wildlife measures at non-federal projects. However, both BPA and the Council have the right to protect their interests by raising any concerns with FERC at the time of relicensing. BPA must not seek to impose additional penalties beyond FERC license provisions.

Third, the definition of an existing non-federal power resource is any FERC licensed development or modification to such development, including those modifications which may require a license amendment. Conversely, a new resource is a power plant that requires new site development.

Responses to IAP Fish and Wildlife Comments

Lorraine Bodi, National Marine Fisheries Service, 3-74:

PNUCC agrees with the position that ECPA will greatly restrict the development of PURPA resources. These additional requirements to the FERC process will effectively eliminate non-federal hydroelectric development in environmentally sensitive areas. In addition, developers will be obligated to comply with conditions set by fish and wildlife agencies to prevent loss or damage to fish or wildlife resources. As explained further in Ms. Bodi's letter, with these restrictions for environmental protection and the associated FERC procedural process, it is highly unlikely that environmentally damaging PURPA resources can be developed.

However, the protection provided in ECPA is not limited to potential PURPA resource development. ECPA requires stringent environmental conditions on new hydroelectric resource development and relicensing of existing power projects. For new and relicensed projects, FERC must give equal consideration to the protection of fish and wildlife resources (including spawning habitat) and power development benefits. Also, FERC will include the recommendations from fish and wildlife agencies and Indian tribes in the license as conditions for project construction and operation. These provisions in ECPA provide protection for fish and wildlife resources from all potentially harmful hydroelectric development, not just PURPA resources.

Ms. Bodi's argument demonstrates why the protected areas concept is totally unnecessary in the Intertie Access Policy. BPA included the protected areas concept in the IAP to prevent the development of hydroelectric projects that would harm BPA's investment in fish and wildlife or impact its implementation of the Council's Fish and Wildlife Program. As Ms. Bodi so convincingly points out, existing ECPA and FERC restrictions on PURPA

hydroelectric development provide sufficient protection of fish and wildlife resources and sensitive habitat to prevent the development of environmentally harmful projects. Given the broad new regulatory requirements imposed on FERC through ECPA, there is no need for BPA to include restrictions based on protected areas to assure that its fish and wildlife investments are protected.

Joseph Blum, Washington Department of Fisheries, 3-113:

PNUCC disagrees with Mr. Blum's position that the IAP's fish and wildlife provisions should apply to hydroelectric project development outside of the Columbia River Basin. BPA's authority to implement and fund the Fish and Wildlife Program is restricted to the Columbia River Basin. The extension of the fish and wildlife provisions to regions outside the Columbia Basin would not protect BPA fish and wildlife investments or assist BPA in the implementation of the Fish and Wildlife Program. Consequently, according to BPA's rationale for including fish and wildlife provisions in the IAP to protect its investments, there is no reason to extend protected areas outside the Columbia River Basin.

Mr. Blum argues that some out-of-basin hydroelectric projects "will clearly have adverse impacts to anadromous fish resources if developed as proposed." He concludes that BPA should recognize this and implement fish and wildlife protective measures out-of-basin as well as within the Columbia River Basin. This conclusion is wrong; BPA is not a fish and wildlife regulatory agency. BPA has no authority to regulate the resource development actions of a utility or independent developer. ECPA and FERC processes provide the federal and state agencies and Indian tribes full opportunity to recommend conditions that utilities and developers must meet to construct and operate a hydroelectric project. BPA has interest in utility actions (as through intertie access) that do not affect BPA investments or programs.

Mr. Blum suggests that BPA create protected areas criteria that are consistent with the Council's actions. As the Council has, at this time, released only a staff proposal for protected areas (which the Council states it can neither endorse nor reject), it is premature for BPA to adopt the staff's proposed protected areas criteria when the Council has not even accepted the criteria. The protected areas criteria the Council finally adopts might be considerably different from the staff's proposal.

Einar Wold, National Marine Fisheries Service, 3-120:

The NMFS argument for the applicability of fish and wildlife provisions outside of the Columbia Basin rests on three presumptions: 1) it is anticipated that the Council will adopt designations for protected areas outside the basin, and BPA would be compelled to adopt the same criteria to remain consistent with the Fish and Wildlife Program; 2) the IAP would cause greater out-of-basin development of hydroelectric resources due to development for Southwest power sales via the intertie; and 3) the possible reduction of out-of-basin fishery resources would increase harvest pressure on the Columbia Basin stocks resulting in adverse impacts on these stocks. These presumptions are inaccurate and misleading.

First, only the protected areas proposal provided by the staff extends protected areas outside the basin. As we stated above, it is premature for BPA to act when the Council has not acted.

Second, the IAP will not directly cause more out-of-basin development of hydroelectric resources and thereby greatly impact fish and wildlife outside the basin. As Ms. Bodi clearly pointed out, the development of PURPA resources that may damage fish and wildlife resources will be very difficult in light of ECPA and FERC regulations. ECPA, with its "equal consideration" language which will prevent FERC from licensing this type of hydroelectric development would cause adverse impacts. The presumption that out-of-basin development of hydroelectric resources will have "potentially devastating fishery consequences" is extremely dramatic and misleading.

Third, the argument is made that possible reductions in out-of-basin fishery stocks due to hydroelectric site development would increase harvest pressure on in-basin stocks. This argument assumes that fishery managers have no control over the harvesting of fishery stocks. This assumption is incorrect, but it raises the question: If fishery agencies claim they do not have control over harvest management of fishery stocks, who does?

Attorney General, State of Idaho, 3-126:

PNUCC does not agree with the state's implied conclusion that additional or improved spill is needed because of possible reductions in inadvertent spill due to the IAP. The Fish and Wildlife Program was designed to mitigate the impacts of the existing Columbia River hydroelectric system over the entire range of its operational capability. In recent years, the system has not been operating at full capacity and, as a result, an additional increment of surplus spill has been available for fish spill. Should the IAP result in a decrease of this surplus spill, additional mitigation is not required. Under the proposed IAP, the system will still be operating within the operational range for which the Fish and Wildlife Program mitigation was developed.

Jack Howerton, Washington Department of Wildlife, 3-152:

The Washington Department of Wildlife suggests that the fish and wildlife provisions in the IAP are not appropriate for existing hydroelectric projects. PNUCC agrees that the FERC process adequately regulates existing projects.

Thank you for this opportunity to comment.

Sincerely,

Al Wright
Executive Director

RK201

FRIENDS OF THE EARTH

18 February 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-203
RECEIPT DATE:
FEB 22 1988
AREA: DISTRICT
T (OS)

Jo Ann Scott
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Or 97212-0999

Dear Ms. Scott:

Friends of the Earth (FOE) has received and reviewed BPA's December 1987 revised draft Long Term Intertie Access Policy (LTIAP). We would like to compliment BPA on the significant improvements over the previous draft LTIAP, especially concerning fish and wildlife protection. Our formal comments on the 1987 draft LTIAP are attached. FOE appreciates both the opportunity to submit written comments and the opportunities we have had to meet with Mr. Jura and the other interested parties. We trust that the final Intertie Access Policy will facilitate transactions beneficial to both the Northwest and Southwest while providing appropriate safeguards against environmental impacts in the Northwest.

Sincerely,

Michael Rossotto

Michael Rossotto
Research Associate

/MSR

Northwest office 4512 University Way NE Seattle, Washington 98105 (206) 633-1661

FRIENDS OF THE EARTH

COMMENTS ON BPA'S 1987 REVISED DRAFT LONG TERM INTERTIE ACCESS POLICY

Prepared by:
Michael Rossotto
Research Associate
18 February 1988

Northwest office 4512 University Way NE Seattle, Washington 98105 (206) 633-1661

Friends of the Earth (FOE) views BPA's December 1987 revised draft Long Term Intertie Access Policy (LTIAP) to be a significant improvement over the previous draft. We are especially supportive of the new section 7 proposal to protect fish and wildlife by decrementing intertie access for new hydroelectric projects built in "Protected Areas."

There can be no doubt that the California market and the existence of the intertie has encouraged new hydro development in the Northwest, despite the lack of need for power in the Northwest. Before the passage of the Electric Consumers Protection Act of 1986 (ECPA) the Federal Energy Regulatory Commission (FERC) regularly cited the California market and the existence of the intertie to justify new hydro development in the Northwest. For example, FERC's final environmental impact statement for seven hydroelectric projects proposed for the Snohomish River Basin in Washington stated that "power from these projects can ... be used in California ...." (vol I, p. 1-7) In a post-ECPA order issued on January 5, 1988 denying Idaho Power Company and Idaho Department of Water Resources requests for rehearing of a license granted for the Horseshoe Bend hydro project (FERC # 5376-002), FERC reaffirmed its position that the California market can justify licensing new hydro projects in the Northwest, stating that "... we believe that our conclusion regarding the possible use of the Horseshoe Bend Power in California ... was reasonable." (p.9)

Clearly, the intertie has, and likely will continue to, serve as an incentive to new hydro development in the Northwest. It is thus quite appropriate that BPA should include provisions in the LTIAP that prevent the intertie from from being an incentive for inappropriate resource development - i.e. resource development that would have have unacceptable environmental impacts and/or negative impacts on BPA fish and wildlife investments. FOE supports Northwest Power Planning Council staff's "Protected Areas" proposal and we compliment BPA for proposing to incorporate the Protected Areas program in the LTIAP. The provisions of section 7 of the LTIAP will help protect our region's invaluable fish and wildlife resources; provide developers, utilities and FERC with a clear, bright line rule regarding new hydro projects and intertie access; and clearly establish that consistency with the Power Planning Council's program will be sought.

FOE would like to encourage BPA to extend the provisions of section 7 to the entire Northwest region rather than limiting the fish and wildlife provisions to the Columbia River Basin. In our comments on the previous draft of the LTIAP, FOE questioned the use of different definitions and provisions for new hydro projects outside of the Columbia Basin. It is no secret that most of the new hydro development currently proposed in the Northwest would be located outside of the Columbia Basin. Unquestionably, new hydro development outside of the Columbia Basin could have negative impacts on anadromous fish runs. Impacts to non-Columbia Basin anadromous stocks will lead to increased ocean harvest pressure on all stocks, including Columbia Basin runs. Likewise, it is conceivable that impacts to wildlife and game species outside of the Columbia Basin could lead to increased sport and/or tribal harvest pressures within the basin. Also, some wildlife populations may depend on habitat both within and outside of the Columbia basin. BPA should appreciate

that the loss of critical wildlife habitat outside of the basin could impact wildlife populations which reside within the basin and are of concern to BPA because of ratepayer investments. Beyond the potential negative impacts to BPA investments which may arise from increased harvest pressure and disruption of habitat of migratory populations, BPA should acknowledge that along with protecting its investments, BPA has a broader responsibility under both the Northwest Power Act and the National Environmental Policy Act to avoid environmental degradation as a result of its activities. As the owner and operator of the intertie, BPA has statutory responsibilities not only to protect its investments but to ensure that its activities due not contribute to environmental degradation, such as the loss of critical habitat west of the Cascades. For these reasons, FOE believes that BPA should not allow intertie access for new hydro projects built in Protected Areas outside of the Columbia Basin as well as within the Basin.

FOE is aware that some parties have objected to the proposal that BPA will decrement the intertie access of parties acquiring new hydro resources built within Protected Areas based on the concern that under PURPA a utility may be forced to acquire such power against its will, thus jeopardizing long term contracts. Rather than duplicating the argument here, FOE would simply like to direct the BPA staff's attention to the comments of the Natural Resources Defense Council, the National Marine Fisheries Service, and the Washington Utilities and Transportation Commission regarding these issues. FOE believes that if all the interested parties would work together in support of Protected Areas and the LTIAP, new hydro projects simply would not be built in Protected Areas. In regard to the unlikely event that a utility would be forced to purchase power from a PURPA project built in a Protected Area, FOE would also concur in a LTIAP amendment that a project built in response to price signals that exclude Intertie benefits should not incur intertie-related penalties (see page 4 of NRDC comments dated 2/4/88). However, FOE would like to clarify that the exclusion from intertie-related penalties must be based on the regulators' refusal to consider the economic impacts to the utility, not merely on the utility's good faith efforts in the regulatory process.

FOE finds it completely appropriate for BPA to decrement intertie access for new hydro projects built in Protected Areas. FOE especially supports BPA's position that "These reductions will take place regardless of whether project power is transmitted on the Intertie. There is no need to trace power flows from a Protected Area resource." This provision is extremely important. In the above mentioned order regarding the Horseshoe Bend hydro project, FERC highlights the need for this provision by stating that "reasonable possibilities exist for use of the Horseshoe Bend power to displace other resources that in turn can be transmitted to California." Protected Area resources must not be allowed to be put to such use. FOE is also concerned that Protected Area resources not be used to serve local load growth because some utility has committed itself to long term contracts which cannot be supported by non-Protected Area resources.

Regarding relicensing of existing hydro projects, FOE believes that requiring compliance with the Power Planning Council's Fish and Wildlife program would be preferrable to using the Protected Areas designations. Power

producers not in compliance with the Fish and Wildlife program should have their access decremented.

FOE would like to emphasize the special role that BPA (in partnership with the Northwest Power Planning Council and other interests in the Northwest) must play in protecting the fish and wildlife of the Northwest. Some parties have argued that under ECPA, the FERC licensing process now includes enough safeguards to protect the Northwest Environment. In the short time that has passed since the passage of ECPA, we have witnessed at least three major FERC decisions which do not seem to support this argument. First, a February 1987 rule (#464) issued by FERC affecting the point at which a state is deemed to have waived its authority regarding water quality certification for new hydro projects elicited a letter signed by Senators from Washington, Montana, and California which read in part "... we believe such retroactive application of this rule contradicts ... the underlying principles that guided Congress last year in enactment of the Electric Consumers Protection Act (ECPA), namely a greater federal-state partnership in determining where and under what conditions hydroelectric licenses should be issued." A subsequent FERC rulemaking (#481) defining comprehensive hydropower plans has been appealed by agencies representing several states, including California, Washington, and the Northwest Power Planning Council; along with several environmental groups, including FOE. Most recently, we have seen FERC deny the requests of the Idaho Power Company and Idaho Department of Water Resources for rehearing on the Horseshoe Bend hydro project. While BPA may not share FOE's skepticism concerning FERC's commitment to protecting fish and wildlife under ECPA , we do believe that BPA should have no problem distinguishing its own mission and responsibilities from those of an agency which in the past year has found itself at odds with Northwest Senators and agencies, as well as California interests and even a Northwest utility. Even if, as we hope, FERC becomes a champion of fish and wildlife protection under ECPA, FERC's obligations regarding the protection, mitigation, and enhancement of fish and wildlife will always be something less than those of BPA. Therefore, FOE applauds BPA for including strong fish and wildlife protection in the LTIAP.

Beyond our support for the fish and wildlife provisions of section 7, FOE would like to make the following two general comments concerning the LTIAP: First we feel it is critical that non-generating utilities should be allowed intertie access to market power produced through conservation and efficiency improvements. Secondly, we feel quite strongly that seasonal exchanges which result in a decreased need for the construction of new power plants at either end of the line should be facilitated to the maximum extent possible.

COLUMBIA RIVER INTER-TRIBAL FISH COMMISSION
975 S.E. Sandy Boulevard, Suite 202, Portland, Oregon 97214 Telephone (503) 238-0667

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-204
RECEIPT DATE:
FEB 22 1988
AREA: DISTRICT
L (OR)

February 19, 1988

Donna L. Geiger
Public Involvement Coordinator
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208

Dear Ms. Geiger:

Please accept these comments of the Columbia River Inter-Tribal Fish Commission in response to BPA's revised draft Long Term Intertie Access Policy (LTIAP). As you are aware, the Commission has, over the last several years, expressed its comments to BPA on the potential consequences to fish and wildlife that may result from alternative intertie access policies. Broadly stated, our concerns are two fold. First, the Commission and its member tribes have significant interests in the manner in which existing hydroelectric resources in the Pacific Northwest may be operated in response to intertie policies. Second, we are concerned that intertie development and use may lead to the construction of new hydroelectric projects that conflict with fish and wildlife as well as plans to manage and rebuild these resources.

Relationship to the Columbia River Basin Fish and Wildlife Program and Pacific Northwest Electric Power and Conservation Plan

The proposed LTIAP circulated with the draft IDU-EIS contained fish and wildlife provisions that addressed the Administrator's obligations under the Northwest Power Planning Council's Columbia River Basin Fish and Wildlife Program. However, the revised draft does not contain provisions addressing the Program, except with regard to new resources developed in protected areas. Additionally, neither the draft nor the revised draft considered the provisions of the Council's Energy Plan established for the protection of fish and wildlife resouces.

We believe that the LTIAP should recognize and rely upon the Council's Program and Plan for the protection of fish and wildlife with respect to access to the BPA controlled portions of the intertie. Thus we urge BPA to adopt fish and wildlife provisions ensuring that resources operated to allow a utility

[illegible] the intertie will be consistent with the fish and wildlife protections of the Council's Energy Plan and Fish and Wildlife Program. Thus we concur with the Council that resources which are not consistent with the Energy Plan and the Program should not have access to the intertie. 1/ To effectate this strategy, BPA will have to provide procedures to decrement assured delivery and formula allocation for inconsistent resources. We believe that such procedures should allow for a suitable administrative record to be developed and a decision to be reached within a reasonable time certain.

Protected Area Designations Within Indian Reservations

We support the BPA proposal to adopt protected area designations consistent with the Council staff proposal. Consultations with the Council staff indicate the staff's clear position favoring deference to tribal designation of protected areas within reservation boundaries. Similarly, BPA should recognize the complex and unique legal and social circumstances that attend tribal control and management of natural resources within reservation boundaries. The reservations comprise ancestral lands which through millenia of tribal habitation instilled fundamental cultural values. The underlying purpose for which tribes reserved their lands by treaty with the United States was to be secure in a permanent homeland. Thus, any determination of the value of fish and wildlife resources found within reservation boundaries should and can only be properly made by the tribes themselves.

In this regard, we request that BPA's adoption of protected areas explicitly include a statement of policy that BPA will defer to Indian tribal recommendations regarding the future establishment of and/or amendments to protected areas designations within reservation boundaries. Such a course is directed by President Reagan's Official Policy Statement encouraging tribal self-management of natural resources within reservations. Furthermore, deference to tribal designations is fully consistent with well-established law. See generally, Confederated Salish and Kootenai Tribes v. Namen, 665 F.2d 951 (9th Cir. 1982) cert. denied 459 U.S. 977 (1982) (tribal regulation of waterfront construction within reservation upheld to protect health and welfare of tribe); Washington v. U.S. Environmental Protection Agency, 752 F.2d 1465 (9th Cir. 1985) (quoting EPA policy to "promote an enhanced role for tribal government in relevent decisionmaking and implementation of federal environmental programs on Indian reservations" and providing specific examples).

1/ As we have commented previously, we believe that such consistency should apply with equal force to federal and non-federal resources.

Regional Application

BPA's definition of protected areas at page 2 of the policy would limit BPA's adoption of protected areas to the Columbia River Basin. For the following reasons, we strongly encourage BPA to adopt a protected areas policy which encompasses all of Oregon, Washington, Idaho, and those portions of Montana west of the continental divide.

First, broadening the scope of BPA's protected areas policy would be consistent with the Council staff's proposal, which does embrace the four state Pacific Northwest Region. As more fully described in the Council's issue paper, the Hydro Assessment Steering Committee (HASC) effort, from its inception, included broad representation from state and federal agencies, Indian tribes, developmental interests, and environmental groups. It was the HASC recommendation to the Council and BPA to proceed with rivers studies addressing the entire region not merely the Columbia Basin. Over the last two and one-half years those studies have moved forward with BPA and Council support. Now, a well-developed record of resource information is available to make protected area determinations for the entire region.

Second, anadromous fisheries management of Columbia River stocks is heavily influenced by the abundance of Puget Sound as well as coastal Oregon and Washington stocks. Ocean fisheries are managed to take into account these stocks and others from British Columbia and southeast Alaska. Since ocean fisheries frequently intercept mixed stocks from different sub-regions within the Northwest, the relative strength of individual stocks bears importantly their contribution to various fisheries, and consequently the total level of mortality incurred. If, for instance, Puget Sound stocks are weakened because of new hydro development, then additional fishing pressure is likely to be exerted on Canadian and Columbia River stocks. The legal and political environment in which ocean fisheries management decisions are made is delicate and depends on the cooperation of both the United States and Canada under the Pacific Salmon Treaty. We encourage BPA to recognize and facilitate the United States' obligations under the Pacific Salmon Treaty by adopting a policy that protects all salmon stocks in the Northwest, not just the Columbia River Basin.

Third, BPA must consider the probability that a hydro displacement effect will occur if only the Columbia Basin is protected. It appears almost inevitable that if development is excluded from critical habitats within the Columbia Basin, then developers will look more favorably upon areas outside the basin where comaparable protections are not in place. This displacement effect may exacerbate the problem with mixed stock fisheries identified above.

PURPA Resources

We generally concur with the views expressed by the National Marine Fisheries Service in its letter of January 19, 1988 addressed to Walt Pollock, BPA. The Electric Consumer Protection Act (ECPA), P.L. 99-495, significantly restricted the conditions for mandatory purchase under PURPA. These conditions substantially reduce the likelihood that large numbers of new small hydro projects will be brought into commercial operation in the Northwest. More significantly, the new ECPA requirements would now make it virtually impossible for a developer to obtain PURPA benefits for a project sited in a protected area. Thus we also concur with BPA's assessment that the alleged conflict between PURPA obligations and the revised draft LTIAP are overstated.

Formula Allocation

The revised draft LTIAP does not attempt to provide any mechanism to decrement formula allocations under conditions 2 and 3. Protected area decrements and decrements resulting from program and plan consistency determinations should apply in these situations. From the standpoint of fish and wildlife protection, it is just as important that the deterrent value of access proscriptions be applied to conditions 2 and 3, as it is that they be applied to condition 1. Thus we request that BPA set forth sufficient authority within the policy, such that it may decrement a utility's declaration under conditions 2 or 3 upon a satisfactory demonstration that the utility is marketing an "inconsistent" resource so as to allow intertie sales.

Conclusion

Thank you for the opportunity to comment. The Commission regards BPA's control of the intertie with great seriousness, given the magnitude of potential fish and wildlife impacts arising from intertie marketing policies and capacity expansions. Changes in the revised draft, particularly BPA's proposed protected area policy reflect improvement over the October, 1986 draft LTIAP. However, the revised draft leaves significant policy gaps that should be remedied as noted above. Unless so remedied, the fish and wildlife impact analyses for intertie development and use based on the October draft LTIAP can not be used as the basis for estimating the impacts associated with the revised draft.

Sincerely,

S. Timothy Wapato

S. Timothy Wapato,
Executive Director

cc: Fish and Wildlife Committees
Howard Arnett, Esq.
Cathy Wilson, Esq.
Rick Applegate, NPPC
Ralph Cavanagh, NRDC
Mark Sullivan, NCAC
Chris Ross, NMFS
Kevin Bauersfeld, WDF
Will Whelan, IAGO

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP.Z-205
RECEIPT DATE:
FEB 22 1988
AREA: DISTRICT
WL (OWL)

Feb. 17

Dear Ms. Geiger,

I want to let ya know that I commend and support the BPA regarding the strong fish and wildlife protection in the "Infertile Access Policy." I would like you to comply with the "Protected Area" designations both inside and outside of the Columbia River Basin. We do not want more dams west of the Cascades which would impact salmon stocks + runs.

Thankyou,

Susan Wood-Roy
PO Box 2869
Ketchum ID.
83340

MS. SUSAN WOOD ROY
P.O. BOX 2869
KETCHUM, ID 83340

NORTHWEST CONSERVATION ACT COALITION

3429 Fremont Place North • Suite 308 • Seattle WA 98103 • 206/547-6910

February 18, 1988

Joanne Scott
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP.Z-206
RECEIPT DATE:
FEB 22 1988
AREA: DISTRICT
T (OS)

RE: Final Comments on Draft Long-Term Intertie Access Policy

Dear Joanne,

This letter constitutes our final comments on the access policy.

Much of what we have to say focuses on the fish and wildlife related aspects of the policy and the first three items in our comments address those provisions. This is a matter that we have been intensively discussing with representatives of PNUCC, BPA and the Council in recent weeks. In looking at PNUCC's latest comments on these topics, I believe that we have seen some substantial progress by the utility community in realizing the inevitability, if not yet the desirability, of some fish and wildlife conditions in the policy. Certainly the approach that PNUCC outlines is far more forthcoming than any pevious proposal from the organization and its constituents.

However, we believe that that position still falls short of protecting BPA's and the region's interest in assuring that access to the Intertie does not encourage or facilitate actions that would impede accomplishment of the goals of the Fish and Wildlife Program of the Council or would impose substantial new burdens on our already decimated fish and wildlife resources. What I primarily want to do is point out the respects in which we believe that the PNUCC position would still need to be strengthened in crder to be adequate to these purposes and mention the specific proposals we have put to PNUCC to address those needs, proposals which we now pass on to you for your consideration in developing a final policy.

1) Assured Delivery — The final product out of PNUCC is narrower than I had expected in regard to the criteria for determining which projects are unacceptable from a fish and wildlife viewpoint. PNUCC suggests two criteria: either the project should be shown to negatively impact BPA's fish and wildlife investments or it should be shown to interfere with BPA's ability to comply with the Council Fish and Wildlife Program. Earlier discussions had led us to expect that a third criteria, negative impact on the Administrator's ability to carry out any of his or her responsibilities under Section 4(h) of the Regional Act, would also be acceptable to PNUCC's constituents and would be included in their list. At any rate, it should be to ensure that the full reach of the Administrator's fish and wildlife obligations are protected from Intertie-related interference.

It is also unclear to us exactly what is meant by "interfere with BPA's ability to comply with the Fish and Wildlife Program." If this is meant to create an exemption for independently developed resources which are manifestly inconsistent with the Program, but don't involve BPA directly, then it is an insufficient definition. We have suggested that it would be clearer and more to the point to simply bar resources whose development is inconsistent with the Program, regardless of BPA's role or involvement.

It has been our understanding, based on talks with PNUCC, that it was the intent of their Fish and Wildlife Program language to, in effect, defer the issue of "Protected Areas" to the Council. If the Council chose to include such designations in their Program, they would be effectively incorporated into the access policy as resources which will not be granted access (conversely, of course, if the Council, in the end, fails to adopt a Protected Areas program, the access policy would incorporate no such feature). Additionally, if the Council's protected Areas Program included areas outside the Columbia Basin, so would the effective reach of the access policy.

The final policy, or the ROD on the policy, should, if it includes references to Program consistency, make it clear that such consistency will include protected areas if the Council includes such a program.

On the enforcement provisions, the PNUCC proposals again represent an advance but again fail to meet all the concerns of those devoted to preventing the Intertie from imposing negative impacts on fish and wildlife. PNNUCC continues to hold to a position which would allow a utility to conclude a firm sale, and gain firm access based on an existing surplus and then develop "fish-killer" resources to support the sale. We continue to insist that the enforcement mechanism must deter such development by promising to decrement allocations for existing contracts, as well as for proposed new contracts, if the utility develops resources in violation of the fish and wildlife provisions of the policy.

We have proposed that, in order to prevent any uncertainty accompanying the prospect of such future decrementing from interfering with the consumation of sales, BPA should, as a condition of firm access, require that the contract for the sale for which access is sought include a provision committing the selling utility to refrain from any action which could imperil. Hence, the purchasing utility would have a cause of action, and a means of recovery, should the sale ever be interrupted due to such action by the seller.

2) PURPA — The prospect of being decremented for a resource which was "involuntarily" acquired under PURPA continues to concern some utilities and the PNUCC comments reflect that concern by allowing such resources on the line, even if they otherwise violate the policy, conditioned only on the utility's good-faith efforts to convince the regulatory commission in question that inter-regional sales revenues should not be included in estimating the value of the resource proposed for PURPA acqusition.

We have argued that, given the provisions of ECPA and of PURPA implementing regulations, such a forced acquisition of a violative resource is unlikely in

the extreme. But in order to deal with this remote eventuality we have proposed that the policy should provide that such a PURPA resource should be allowed access if, and only if, the regulatory commission involved evaluated its value without regard to inter-regional sales revenues. Our purpose is not to penalize the utility which ends up with the resource, but simply to assure that the presence of an extra-regional market is not depended upon to make the case for an environmentally undesirable resource which can't make the economic grade based on evaluation of its usefulness within the Northwest.

3) Existing Projects -- PNUCC continues to oppose any constraints on the use of existing hydro projects to support surplus sales over the Intertie, arguing that we should rely exclusively on the FERC processes here. We agree that the reference to relicensing in the existing draft is irrelevant and inappropriate, but cannot concede that existing projects should be utterly exempted from fish and wildlife conditions under the access policy.

We have proposed that the policy simply provide that access will be denied, and allocations will be decremented, for any existing resource being operated in violation of flow, spill or other "river operation" provisions of the Fish and Wildlife Program. We have been willing to exempt from this prohibition projects which are in volation of Program elements involving hatchery construction, installation of bypass screens, truck or barge transportation, etc., because of our inability to see how the Intertie could act to encourage violations in those areas. But when it comes to flow and spill type Program elements, it is easy enough to imagine a situation in which a utility might find it in its interest to violate those provisions in order to have water available to support an extra-regional sale which would otherwise be impossible. That is pecisely the type of linkage we think the policy should be designed to prevent and, hence, continue to insist on the necessity of requiring Program consistency of existing projects at least in these respects.

4) Environmental Guidelines — Fish and wildlife are, of course, far from the only environmental values potentially affected by Intertie sales. And, therefore, the fish and widlife provisions of the policy, do not exhaust BPA's environmental obligations with respect to the granting of access. A decision to grant access for a long-term sale is clearly a Federal action, or enabling action, with the potential for significant impacts on the environment and is a decision which would seem to clearly require NEPA analysis. In order to prevent the NEPA process from unnecessarily extending consideration and analysis of proposed sales, BPA needs to provide in the policy clear criteria for structuring sales so as to assure that they will have no significant impact and can avoid exhaustive environmental analysis. Such criteria will prove of value to all potential sellers and buyers, by letting them know in advance what steps they can take to avoid any possibility of significant environmental effects or delay attendant upon the evaluation of such effects.

5) Equal Treatment for Conservation — The policy continues to reflect a definition of "resources" which is quite inconsistent with the Northwest's post-Regional Act understanding of that term. Simply, put the policy considers as salable resources only generating resources. It does not so much as acknowledge the possibility of a generating or non-generating utility independently developing conservation resources and making a sales transaction

based on the savings from those resources. We and others have been urging, for 5 yers now, that such conservation-based sales were a necessary and proper element of a wise inter-regional sales strategy. The present policy does less than nothing to recognize that conservation role.

At a minimum, the definitions of "resources" in the policy need to be rewritten in order to comprehend the possibility of conservation-based sales. In addition, the policy should contain an explicit committment from BPA to develop mechanisms for facilitating such sales and to, if necessary, later amend the policy to implement the mechanisms developed (although we will say that some of the mechanisms already addressed, such as Firm Displacement sales, can and should function effectively for conservation-based as well as generator-based sales).

I hope these comments will be of use to you. Please feel free to call me with any questions or comments you might have.

Sincerely,

Marc Sullivan
Executive Director

PUBLIC INVOLVEMENT
LOG LTIAP 3 207
RECEIVED
FEB 22 1988
RECORD COPY

Feb 15 - 88

Dear Emma Geiger

As a commercial fisherman from Southeast Alaska (Petersburg) I have alot of concern about increasing fish runs here and in the Northwest.

One possible successful route I see is to strongly pursue B.P.A. recipe to double salmon and steelhead runs. This has to be a total picture procedure, not a piecemeal practice. We have had enought of the piecemeal approach and it doesn't work to a great extent. That is, there's much room for improvement. I feel the Protected Areas Designation proposal as a worthwhile project.

As a commercial troller we've helped by joining Canada and Washington in the International Salmon Treaty, a 38 accessment of our salmon fish receipts to help rebuild our great resource. These have been a major steps in the future of salmon, Alaska to Oregon and they seem to be working. Catch rate reductions have already shown we can get more fish to the River mouths. Now the B.P.A. and private utilities have to do there fair share to get the salmon up stream and the out-migrates down.

Therefore I support fish and wildlife protection via the Protected Areas designation and the Interties Access Policy.

Sincerely John Murray S. Rt. 4 Box 6131 Petersburg AK 99835

UNITED STATES DEPARTMENT OF COMMERCE
National Oceanic and Atmospheric Administration
NATIONAL MARINE FISHERIES SERVICE
ENVIRONMENTAL & TECHNICAL SERVICES DIVISION
847 NE 19th AVENUE SUITE 350
PORTLAND, OREGON 97232-2279
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F/NWR5

FEB 19 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-208
RECEIPT DATE:
FEB 22 1988
AREA: DISTRICT
L (OP)

Ms. Donna L. Geiger
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212

Dear Ms. Geiger:

We have reviewed the recent Bonneville Power Administration (BPA) Long-Term Intertie Access Policy (IAP) paper of February 11, 1988. Our comments pertaining to the Protected Areas section of the paper follow.

We have previously addressed the concern of reduced Intertie access for a utility forced to acquire protected area resource energy under the Public Utilities Regulatory Policies Act and reference the National Oceanic and Atmospheric Administration letter of January 19, 1988, to Mr. W. Pollock. We have also addressed issues regarding existing hydropower resources and reference our letters of December 10, 1988 to Mr. R. B. Fox and February 5, 1988 to Ms. D. L. Geiger.

Concerning existing projects, BPA has requested comment on several issues. BPA asks when a determination should be made concerning denial of Intertie access to existing resources that do not comply with the Northwest Power Planning Council's (Council) Regional Energy Plan (Plan) and Fish and Wildlife Program (Program). As stated in our letter of December 10, 1988, we believe that the IAP should require consistency with the Plan and the Program for existing hydroelectric resources. Thus, we fully support the Council's recommendation to that effect. Further, we believe that BPA should make the determination of consistency with the IAP prior to a utility being granted access to the Intertie. Impacts on anadromous fish due to existing resources inconsistent with the Plan and Program should not be allowed to continue unchecked until the time of relicensing, which may not occur for decades. Delay in consistency with the Plan and Program can only reduce BPA's efforts to restore anadromous fish runs.

Thank you for the opportunity to comment.

Sincerely,

Douglas A. Detlefsen
for Einar Wold
Acting Division Chief

cc: CBFWA

TILLAMOOK PEOPLE'S UTILITY DISTRICT
P. O. BOX 433
TILLAMOOK, OREGON 97141
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PHONE 842-2535

R. L. BAVILLE, MANAGER

A CUSTOMER-OWNED PUBLIC SERVICE

DIRECTORS
WM. "WINK" DUNN
TIMOTHY E. JOSI
EDWIN L. KELLOW
CARL L. RAWE
MILLARD TROUT

February 16, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-209
RECEIPT DATE:
FEB 22 1988
AREA: DISTRICT
L (OP)

cc: AL-15

Mr. Jim Jura
Administrator
Bonneville Power Administration
P.O.Box 3621
Portland, Oregon 97208

RE: Long Term Intertie Access Policy

Dear Mr. Jura:

We appreciate the opportunity to comment on the proposed long term intertie access policy(LTIAP). As a utility which is dependent upon BPA for nearly all of our power supply we are very interested in and concerned about this policy. We believe that the LTIAP, as proposed,will adversely impact our power supply costs.

We recognize the responsibilities that BPA sees as a common carrier and that the appropriate policy should maximize total financial benefits from the use of the intertie, not just those accruing to BPA. This maximization of regional benefits, however, should not come at the expense of revenues which would otherwise be available to BPA.

Under statutory directives BPA is not only obligated to reserve sufficient intertie capacity for current and future needs but also is obligated to obtain full reimbursement from utilities using the intertie, including revenue losses BPA experiences from federal sales being displaced. The LTIAP fails to adequately protect BPA's interests in this regard. We believe it is imperative that the policy provide for no revenue loss for BPA. An appropriate mitigation arrangement should be developed to provide for this.

Of further concern to us is the fact that the draft LTIAP is predicated upon the completion of the DC upgrade and the third AC intertie. IF either of these projects should not be completed the loss to BPA after mitigation would be even greater than that now contemplated. We strongly urge you to allow for adjusting the assured delivery and formula allocation amounts based upon the progress of these projects.

The draft LTIAP does not appear to allow for access by utilities other than those currently defined as scheduling utilities. We believe that BPA is required to make available to all utilities on a nondiscriminatory basis any capacity in the intertie in excess of BPA's requirements. The proposal appears to exclude those utilities which either have resources and do not operate their own load control area or develop resources after the policy takes effect. The LTIAP should be revised to accommodate these situations on an equitable basis.

BPA is obligated to protect the significant investment in fish and wildlife in the Columbia River Basin. The proposed use of the Regional Council Staff Protected Area Designation proposal is at best premature. It is a simplistic approach which would apply the Council's judgement and result in double penalties regardless of the circumstances involved. We suggest that BPA make determinations on whether projects have detrimental effects on the fish and wildlife investments. BPA should use all available data in making these determinations. The LTIAP should only address those projects that need to use the intertie and the subsequent access to the Southwest market as economic justification.

BPA is obligated to protect the interests of itself and its' customers. To the extent it can provide equitable use of transmission for non-federal power without adverse impact to BPA revenues it should. We believe that revising the LTIAP to reflect our comments would provide for this.

Sincerely,

Millard Trout
President

Your Seattle City Light

Randall W. Hardy, Superintendent
Charles Royer, Mayor

February 22, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-210
RECEIPT DATE:
FEB 28 1988
AREA: DISTRICT
T(OS)

Jo Ann Scott - ALP
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, OR 97212-0999

Dear Ms. Scott:

These comments are submitted by Seattle City Light (SCL) in response to your request for cross comments on the Revised Draft Long-term Intertie Access Policy (Policy). SCL has also participated in preparation of the comments submitted on behalf of the Public Generating Pool (PGP).

SCL's comments augment points made in our initial comments and discuss aspects mentioned by other parties particularly Mitigation for Assured Delivery and Fish and Wildlife Protection. Thank you for the opportunity to submit our comments today. This option has enabled us to comment more specifically about our concerns regarding our potential exchange agreement as was discussed on February 19.

I. Mitigation for Assured Delivery

SCL supports Bonneville Power Administration's (BPA) proposal to provide Assured Delivery access for some firm and exchange sales. This decision will, over the long-term, benefit the Pacific Northwest, both generating and non-generating utilities and the Southwest region. We also agree that costs and benefits associated with Assured Delivery access should be accurately accounted for and that some mitigation procedure as opposed to a "charge" should be employed in the Policy in the case that Assured Delivery transactions actually cause BPA demonstrable harm.

We question, however, the accuracy and balance used in determining the actual costs associated with Assured Delivery. The issue comes down to what starting point should BPA use in calculating the impact to which there is no simple answer. Some would claim that BPA stands to lose revenue if any Assured Delivery is provided (Non-generating utilities); others claim that BPA has yet to demonstrate marketing abilities which would

indicate that BPA would lose any revenues if 800-1500 MW of Assured Delivery is set aside for non-federal access (Intercompany Pool).

Seattle finds itself somewhere in the middle of this continuum of possibilities. We strongly encourage BPA to continue to assess the costs and benefits associated with Assured Delivery keeping in mind the commitment to the regional partnership between BPA and non-federal utilities.

Mitigation for Assured Delivery - Other Parties' Comments

Puget Sound Power and Light
Washington Water Power
Idaho Power Company

SCL agrees with these utilities that the mitigation measures in the Policy are flawed. These measures are flawed because the quantification of the "costs" performed to date have not captured all of the aspects which pertain to the decision to set some access aside for non-federal firm sales and exchanges. Several items have not yet been incorporated in either BPA or the Pacific Northwest Utilities Conference Committee's (PNUCC) analyses such as residential and rural exchange, avoided energy or capacity purchases, additional storage provided from exchange transactions, etc. These are real benefits that the region, including BPA, will gain.

The lack of definitive analyses leads SCL, and other non-federal generating utilities, to believe that potentially no mitigation is necessary. Until there is a clear demonstration that mitigation is necessary, we will continue to question its inclusion. For this reason, we strongly encourage BPA to reassess the Mitigation provisions taking into account benefits as well as costs.

Washington Water Power
Western Public Agencies Group

SCL concurs with these entities who claim that BPA should limit mitigation to lost federal sales. This, in combination with the Cash Out Provision modification and rewrite of section 4(d)(4)(A) (Firm Sales and Seasonal Exchange Deliveries) as proposed by the Public Generating Pool, ensure sufficient mitigation for non-federal entities. The proposed modifications stated in the PGP comments should also address

Idaho Public Utilities' Commission concerns with respect to non-federal impacts during Condition 1.

Western Public Agencies Group (WPAG)

SCL does not agree with WPAG's claim that a surcharge should be applied in addition to the mitigation provisions in the Policy. Again, there is skepticism as to the real costs and benefits that BPA and its customers may incur as a result of allowing non-federal utilities access. Before the dust settles in this arena, SCL strongly opposes any tendency toward overcompensation.

SCL's own exchange transactions may be rendered uneconomic as a result of the Mitigation provisions alone. Any additive "hit" would stop the transaction. This circumstance is not expected to prompt sympathy, however, it does raise serious questions about the appropriateness of Mitigation provisions and a surcharge from SCL's perspective. We are confident, also, that SCL is not alone. We strongly question a policy that makes the general claim that exchanges are good over the long-term but in fact, diminishes the cost-effectiveness of these transactions to effectively nothing by imposing questionable near-term costs.

SCL maintains that only if the region's federal and non-federal entities are ultimately convinced that mitigation is necessary, then it should be: (1) based upon a stated methodology developed in concert with the Final Long-term Policy; (2) specified on a case-by-case basis; and, (3) realized through operational arrangements, contractual arrangements between the utility and BPA, or through a fully analyzed surcharge mechanism.

II. Fish and Wildlife Protection

Seattle City Light is committed to giving special consideration to the protection of fish and wildlife. We have commented on the Northwest Power Planning Council's (Council) issue paper on Protected Areas Designation (enclosed for your review) and have expressed interest in and support for development of a Washington State Comprehensive Hydropower Plan. We are also on record as supporting the Washington State Department of Ecology's instream resource and water allocation program in concept.

In general, SCL is supportive of the protected areas program the Council is considering, with several important caveats. Most important of these is limiting the program's implementation to within the Columbia River Basin. We recognize the validity of BPA's interest in environmental protection region-wide and its concern about out of Basin decisions affecting Columbia Basin Fish and Wildlife Program goals. The kinds of programs (mentioned above) being initiated in Washington State will go a long way towards achieving adequate protection outside the Basin. We do not consider BPA the agency responsible for these areas, however.

We believe that if BPA decides to include fish and wildlife provisions in the Policy, those measures should achieve consistency with the Fish and Wildlife Program of the Council (including the protected areas proposal) which, due to the nature of the Council's mandate, falls within the Columbia River Basin. This principle is in keeping with the idea that BPA's ongoing and diverse investments in fish and wildlife protection should not be undermined by creation of incentives for construction of new hydroelectric facilities in environmentally sensitive areas.

Fish and Wildlife Protection - Other Parties' Comments

Washington Utilities and Transportation Commission (WUTC) - LITAP-3-92

We support the "total system" approach to calculating avoided costs suggested by the WUTC such that hydro resources developed in a protected area would, under BPA's proposed Policy, result in lost benefits that would need to be reflected in avoided cost calculations.

In addition to this point, regardless of how the individual states deal with this question it appears to us that the environmental protection provided by the Electric Consumer Protection Act (ECPA) significantly limits the likelihood that a project proposed in a protected area could qualify for PURPA status.

Washington Department of Fisheries - LITAP-3-113

We agree with the Washington Department of Fisheries that... "designating protected areas will give regulators and developers a clear message with respect to project siting and

will help protect BPA's current fish and wildlife expenditures."

We disagree that BPA has a role in creation or implementation of programs to protect fish and wildlife in areas that extend beyond the reaches of the Columbia River Basin. Instead, BPA's support and encouragement for fish and wildlife protection efforts outside the Basin is needed to facilitate regional cooperation.

Pacific Hydro - LITAP-3-114

We support the idea that BPA should allow for consideration of those special cases where new hydroelectric resources in protected areas may actually enhance fish and wildlife. We have some experience working with agencies and tribes on redevelopment of a small hydro project which would enhance fisheries.

Also, the Policy's incorporation of protected areas needs to include a means of dealing with the imperfect nature of the data base developed to identify protected areas such that stream reaches inappropriately given protective status or overlooked areas can be, expeditiously, removed from or added to the protected areas list utilized by BPA. If BPA includes protected areas consideration in Section 7 of the Policy, an appropriate amendment process needs to be recognized in order to address these possibilities.

Idaho Public Utilities Commission - LITAP-3-116

It is well to point out that BPA's proposal for limiting intertie access as a function, in part, of fish and wildlife considerations will not cause a prohibition on hydro development in protected areas. BPA, in our view, should not adopt a role resembling a regulatory body, by making determinations concerning whether or not a development is justified. On the other hand, we concur with parties that have acknowledged BPA's role in preventing the adoption of policies that create incentives for hydro development in environmentally sensitive areas.

The position by the Idaho Public Utilities' Commission that BPA is placing Public Utilities' Commissions in a position of "reconciling conflicting federal regulations..." appears to be reasoned on the aforementioned notion that all adverse environmental impacts of generation projects can be mitigated.

We believe this to be incorrect in most cases. In the off chance a resource approved within a designated protected area qualifies for PURPA status, the value of lost intertie benefits is something that can be reasonably quantified for the purpose of adjusting avoided costs.

State of Idaho - LITAP-3-126

The State of Idaho states the view that if the protected areas program is not incorporated into the Columbia River Basin Fish and Wildlife Program, or is otherwise delayed or limited, BPA should not be left without a replacement policy for new resources. If this is to mean that in the absence of an action by the Regional Council to adopt the protected areas proposal, BPA would still need to take precaution in the Policy to remove incentives for generation developments in environmentally sensitive areas, or otherwise protect its investments in fish and wildlife protection, we agree.

Pacific Northwest Generating Company (PNGC) - LITAP-3-141

We agree with some of PNGC's comments regarding identification of protected areas. To proceed on the schedule given by BPA for adoption of the Final Policy, we can anticipate that BPA will need to accept initial responsibility for the identification of protected areas as they apply to the Policy. If this occurs, we agree with some of the points PNGC has made regarding BPA's identification process:

- o areas should be limited to the Columbia Basin;
- o actions should apply only to new hydroelectric development.

In addition, as mentioned above, we support an amendment process that would take special situations and inappropriate or incomplete designation of protected areas into account.

Pacific Northwest Utilities Conference Committee - LITAP-3-135

We agree with PNUCC's statement that if BPA intends to include fish and wildlife protective measures in the Policy that the measures pertain only to new hydroelectric resources in the Columbia River Basin that impact fish and wildlife.

Thank you for the opportunity to comment. We look forward to reviewing the Final Policy and are hopeful that BPA seriously considers incorporating some of our comments.

Sincerely,

Original Signed by

Randall W. Hardy
Superintendent

CCQ/LG:jm

Enclosure

Office Of The Mayor
City of Seattle

Charles Royer, Mayor

January 13, 1988

Attachment
LT1AP-3-210

Northwest Power Planning Council
850 Southwest Broadway Suite 1100
Portland, Oregon 97205

Dear Northwest Power Planning Council:

Staff Issue Paper - Protected Areas Designation

Thank you for the opportunity to comment on the Northwest Power Planning Council (NPPC) staff's issue paper on Protected Areas. Seattle City Light staff have tracked this issue over the years by attending the Hydro Assessment Steering Committee meetings.

Our interest in this issue stems from our responsibility to provide both electricity and water to Seattle and the metropolitan area in an environmentally sound manner. We have our customers' best interests in mind in meeting the demand while balancing cost effective resources with our environmental mandates. We are committed to conducting our activities in a manner giving special consideration to the protection of fish, wildlife, and other water-related resources. We are, therefore, very interested in the proposed amendments that would adopt Protected Areas as part of the Fish and Wildlife Program.

Our detailed comments are in response to the four questions listed on page two of the issue paper.

Q1. Should the Council enter rulemaking for purposes of designating protected areas?

The City of Seattle supports the approach of staff's recommendation for designating protected areas in the Columbia River Basin. We would support entering rulemaking on protected areas if the concerns raised in our responses to Q2 and Q4 are addressed. Our support is based on Section 4(h)(1)(A) of the Pacific Northwest Power Planning and Conservation Act (the Regional Act), which directs the Council to develop a program "to protect, mitigate, and enhance fish and wildlife. . . on the Columbia River and its tributaries." The protected area approach has potential benefits for

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developers, natural resource agencies, Indian Tribes, and utilities and their ratepayers. It would set clear guidelines for use by the above groups as well as the Federal Energy Regulatory Commission (FERC) for managing fish and wildlife resources. It would enable developers to concentrate their attention and resources on less sensitive areas where development is more appropriate. Finally, designating protected areas in the Columbia Basin would help ensure that substantial ratepayer investments in fish and wildlife rehabilitation adopted through the Fish and Wildlife Program would not be undermined.

Q2. Should protected areas be designated both in and out of the Columbia River Basin?

While the City of Seattle supports the protected areas concept for fish and wildlife, we do not believe the Council has the authority to designate protected areas outside the Columbia Basin.

The Regional Act explicitly directs that the Council's Fish and Wildlife Program shall apply only to the Columbia River and its Tributaries:

> "This subsection shall be applicable solely to fish and wildlife, including related spawning grounds and habitat, located in the Columbia River and its tributaries. Nothing in this subsection shall alter, modify, or affect in any way the laws applicable to rivers or river systems, including electric power facilities related thereto, other than the Columbia River and its tributaries, or affect the rights and obligations of any agency, entity, or person under such laws." (Regional Act § 4(h)(1)(B))

While Section 4(e)(2) which does apply to areas outside the basin states that the Council's Plan must include "...due consideration by the Council for (a) environmental quality, (b) compatibility with existing regional power system, (c) protection, mitigation, and

enhancement of fish and wildlife...", "due consideration" does not authorize Council to protect, control, or adjudicate activities outside the Columbia Basin. Section 4(h)(l)(B) is specific in defining the Council's authority within the Columbia Basin only, whereas the language in Section (4)(e)(2) is less directive and does not extend the same level of authority outside the basin.

While the reach of the Council's Fish and Wildlife Program does not extend beyond the Columbia River System, the City of Seattle agrees that there are certain areas of critical fish and wildlife habitat outside the Columbia River Basin that are unsuitable for development. This principle is reflected in Seattle City Light's Strategic Corporate Planning policy which states that the review of environmental issues is of equal importance to the review of economic and technical information in evaluating proposed generating resources. Proposed projects will be rejected if they result in a net impact to anadromous fish; are located within National Parks, Wilderness Areas, Wild and Scenic Rivers, or Research Natural Areas; or are located within areas of critical wildlife habitat.

In addition to individual utility policy like that described above for Seattle City Light, there are other mechanisms in Washington State for fish and wildlife protection that appropriately cover areas outside the Columbia River Basin. There are currently two State led efforts that will serve to protect valuable streams and rivers from the adverse effects of future water developments. Both will contain provisions to deal with fish and wildlife protection similar to those developed by the Council staff. The first is Washington State's effort to develop a state comprehensive hydropower plan. The second is Washington State Department of Ecology's (WDOE) instream resources and water allocation program that will apply to all water uses. The City of Seattle is on record supporting the underlying concept of both of these endeavors. Beyond individual utility and individual State activities, the Electric Consumer Protection Act (ECPA) of 1986 significantly increased

the authority of resource agencies to protect natural resources through FERC's hydropower licensing and relicensing process. Seattle recognizes that FERC authority and ECPA do not apply to federal hydroprojects; however almost all of the projects outside the Colombia River Basin are under FERC jurisdiction and are subject to the new licensing and relicensing requirements of ECPA which direct FERC to consider all recommendations made by relevant resource agencies and tribes.

Q.3 Should protected areas be expanded to include specifically non-fish and wildlife values?

As noted above, the Regional Act clearly states in Section 4(h)(l)(B) that the Fish and Wildlife Program". . .shall be applicable solely to fish and wildlife, including related spawning grounds and habitat, located on the Columbia River and its tributaries." (Emphasis added.) The Council does not have the authority to include provisions other than for fish and wildlife in protected areas designation. There are mechanisms through federal and state laws and treaty rights that extend protection to other values.

In addition, Council staff itself recommended against this expansion (see p 15, Protected Areas Designation, Staff Issue Paper, October 8, 1987).

Q4. Are there other considerations which should be taken into account by the Council?

One of our primary concerns is the imperfect nature of the data base developed to identify protected areas. The adoption of protected areas derived from a data base containing numerous inaccuracies could result in inappropriate designation of some river reaches. Further, there is no expeditious way to amend and correct the data base as new and better information becomes available. The only mechanism apparently allowed by the issue paper is to go through the unwieldly and time-consuming Fish and Wildlife Program amendment process.

Our lack of confidence in the data base comes from first hand contact with responsible staff. City Light staff have discussed specific development projects and related stream reaches with those working directly with the data base only to be informed that it has a number of errors and problems. We realize that developing this data base was an immense and complex undertaking, and we commend the Council for its efforts so far. However, the data base is a compilation of the best available information at this time. Some of it is supported by thorough field surveys, some by spot field checks, and some (especially on smaller streams) by educated best guesses. When a developer proposes a particular project, a relatively thorough site-specific survey is necessary. Often, this will be the first time that such a detailed survey has ever been performed.

As an example of such a situation in an area outside the Columbia River System, Seattle City Light filed a preliminary permit application for a hydro project on the upper part of Illabot Creek, a tributary of the Skagit River, while under the impression that no anadromous fish were present in that area. This initial assumption was based on preliminary consultation with the Washington State Department of Fisheries. During the ensuing one year field study it became clear that anadromous fish were present through the entire portion of the watershed in question. In this case the best available data had been incorrect and the City subsequently withdrew its preliminary permit application based on this new information and the fact that the project was no longer economically feasible due to the need for increased flows to protect the anadromous fish.

In the event the Council does adopt Protected Areas for the Columbia River Basin, the rulemaking should permit verification of the presence or absence of targeted species and habitats in areas set aside for protection. If the targeted species or habitat are discovered in an unprotected area in which they were previously thought to be absent, then rulemaking should be flexible enough to add this stream reach into the protected category. Conversely, if the targeted species or habitat are

absent, rulemaking should allow expedient removal of the stream reach from the protected category.

Another concern Seattle has is that the designation of protected areas should not preclude the development of the unusual but occasional project that is mutually beneficial to the proponent and the protected resource. For example, the Skagit System Cooperative, an organization representing the fishery interests of three Northwest Indian Tribes, once requested that Seattle City Light proceed with expansion of a small hydro project because of its associated anadromous fish benefits. Provision should be made for allowance of such projects in cases where the resource agencies and tribes concur on their beneficial nature to the protected resource. The burden of proof would be on the developer.

Lastly, Seattle is concerned about further increasing the persistent confusion caused by overlap of the various state, federal, and regional entities that claim responsibility for managing water resources. Unless the Council and the other entities clearly delineate who has what authority and coordinate their activities, all interested parties will continue to be confronted with great uncertainty. Adoption of protected areas should be coordinated with the other agencies' hydro licensing and water management mandates. Only in this manner can we protect critical fish and wildlife habitat as well as streamline the hydroelectric licensing process and water allocation policy.

Thank you for the opportunity to comment.

Sincerely,



Charles Royer

cc: Randall W. Hardy, Seattle City Light
Bob Groncznack, Seattle Water Department
Dave Parkinson, Seattle Water Department

MID-COLUMBIA PUBLIC UTILITY DISTRICTS
CHELAN, DOUGLAS, GRANT COUNTIES, WASHINGTON
REGIONAL COORDINATION OFFICE

520 S.W. SIXTH AVENUE, SUITE 1100
PORTLAND, OREGON 97204 (503) 222-3317

February 22, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-211
RECEIPT DATE:
FEB 22 1988
AREA: DISTRICT
L (OP)

Ms. JoAnn C. Scott
Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212-0999

Dear Ms. Scott:

Thank you for the opportunity to comment on Bonneville's draft Long-Term Intertie Access Policy. Our comments are in response to comments of the Natural Resources Defense Council (NRDC), Log No. LTIAP-3-132.

NRDC identifies the intertie as a potential "vehicle for environmental damage." The statement is made without proper recognition that the converse may be equally true. There is minor recognition that the proper use of the intertie for exchanges may reduce the need for some resource development thereby reducing impacts associated with energy resource developments.

NRDC has recognized that FERC considers marketing of Northwest hydro in Southwest markets in reviewing applications for license and issuing orders approving or rejecting applications. These considerations are clearly part of responsibilities given FERC in the Federal Power Act and Electric Consumer Protection Act. In addition to site specific environmental considerations, FERC must take a broad view toward orderly power development. Use of these rivers, including hydroelectric development, must consider broader than regional interests.

NRDC is correct in its assertion that the Power Council's Plan and Fish and Wildlife Program would not meet the FPA and ECPA test for a "comprehensive plan." It is precisely for this reason that the Protected Area Program should not be used as the overriding or compelling argument of whether a project at a particular site should not be developed or granted intertie access. The language of ECPA, "equal consideration," means precisely that. To our knowledge, the Regional Power Planning Council staff has never suggested that the proposed Protected Area Program is a balanced plan which would withstand the equal consideration test of ECPA. NRDC implies that FERC, having different statutory requirements, would view environmental considerations differently than the Power Council or BPA. This implied flaw does not account for the Regional Power Act requirement that FERC recognize the plans and programs of the Council and BPA. NEPA also requires federal agencies to cooperate in the preparation f environmental impact statements, in part, to avoid agencies working at cross purposes. ECPA further requires FERC to take into consideration the views of all federal, state, and local agencies and Indian Tribes as well as the public. To assure proper balancing in the licensing process, Congress placed additional requirements on FERC if it chose to reject recommendations made by fish and wildlife agencies. FERC must incorporate those

recommendations in project development requirements unless extremely compelling evidence is provided to support a contrary conclusion. If these requirements make a project economically infeasible, the developer may withdraw the application or reject the license if issued by FERC, otherwise protective provisions are mandated.

In order for the FERC process to function properly, BPA, the Council, NRDC, and fish and wildlife agencies must represent their interests before FERC, if they choose. NRDC and others should encourage Northwest states to develop plans which would meet the ECPA comprehensive plan requirements. FERC should not, and cannot, regulate by exception.

The arguments presented by NRDC support a provision which would exempt PURPA resources from requirements of Section 7 of the proposed policy.

NRDC displays a naive view of the electric power industry by suggesting that a Northwest supplier take the entire risk for losing Assured Delivery for an alleged violation of some unknown fish and wildlife requirement. Comments submitted by NMFS (LTIAP - 3- 120) at page 3 suggest that the FERC process on existing Mid-Columbia projects is working satisfactorily. Based on the experience of many utilities operating FERC licensed projects it is not uncommon for "new" fish and wildlife issues to emerge on a regular basis. Although there can be many difficulties experienced in dealing with those issues, these utilities maintain the integrity of contractual relationships with other utilities. This level of integrity is essential in an industry otherwise plagued with uncertainty. To include provision in contracts as suggested by NRDC undermines basic utility practices.

NRDC is urging BPA to hurry into adopting the Council's staff proposed Protect Area designations. If Council staff had developed a plan which included developing a series of energy projects, we doubt that NRDC would be so anxious to see it implemented by BPA. In fact, we suspect that NRDC would be claiming a foul pursuant to the Administrative Procedures Act and the National Environmental Policy Act. Since the Council has no enforcement authority, its level of accountability under federal statute is different than for BPA. Before BPA can take action to adopt policies which may affect the environment, it must comply with the requirements of NEPA. The IDU EIS doesn't evaluate the implications of adopting the Protected Area Program. Namely, the increased demand for non-hydroelectric resources. The requirement for doing so is pointed out in the NMFS letter (LTIAP 3-120). NEPA was enacted partly for the purpose of fostering "cooperative federalism."

Thank you once again for the opportunity to comment.

Sincerely,

Dennis E. Rohr
Regional Coordinator

cc: John McMahon, Mgr, Grant PUD
Jerry Copp, Mgr, Chelan PUD
Eldon Landin, Mgr, Douglas PUD

MONTANA POWER COMPANY
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Via Telecopy

February 18, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-12
RECEIPT DATE:
FEB 22 1988
AREA: DISTRICT
(JM (OK)

Mr. John A. Cameron
Manager, Intertie Access Policy
Bonneville Power Administration
P.O. Box 3261
Portland, Oregon 97208

Dear Mr. Cameron:

Because the schedule permits only a short time in which to both review the comments submitted to BPA on its proposed Intertie Access Policy and to prepare rebuttal comments, rather than provide specific rebuttal comments, I wish only to make a few general observations. I request that you provide a copy of these comments to BPA's Office of Public Involvement.

First, of paramount importance to Montana Power is that no meaningful opposition was expressed to the provisions granting Montana Power 105 megawatts of Assured Delivery pursuant to § 9(i)(3) of the Regional Act. Indeed, the only opposition expressed, that of Vigilante Cooperative, seemingly was based on the writer's old and tiresome desire to continue the public versus private power battle that was waged long ago. Indeed, the writer offered no support in logic or law for his position that BPA could deny Intertie access to private utilities while granting such access to public entities. No rationale would support such invidious discrimination. I want to emphasize that no other commentator opposed the provision of 105 megawatts for Assured Delivery for Montana Power.

Second, we wish to again reaffirm Montana Power's position, which was expressed by several other commentators, that BPA does have a responsibility to provide transmission services to non-federal utilities. Indeed, we realize that BPA itself recognizes this responsibility. Nevertheless, many of the provisions in the proposed Intertie Access Policy excuse BPA from fulfilling its obligations to the degree required. For example, provisions relating to mitigation and decrements in Assured Delivery allow BPA to partially avoid the responsibility assumed when BPA accepted its role as steward of the regional transmission system. That responsibility co-exists with BPA's other responsibilities and is not subservient to them.

Third, Montana Power again emphasizes its strong preference that the formula allocation be based on declarations rather than on a hydro cap. There is no logical basis for using hydro generation as a basis for nonfirm allocations. With the primary exception of BPA, few if any utilities export their inexpensive hydro power to California. Most utilities, at least prudent ones, use their cheaper hydroelectric power for their own customers and sell the higher cost thermal power to California.

Fourth, Montana Power urges BPA to exercise restraint in the imposition of penalties because of hydroelectric facilities located in protected areas. Fish and wildlife concerns have an adequate forum in the proceedings before the Federal Energy Regulatory Commission; BPA must be hesitant to impose requirements that go beyond those imposed by agencies (including state agencies) that have the primary duty to protect fish and wildlife resources.

Fifth, the unique nature of Colstrip 4 as a § 9(i)(3) resource or (pursuant to BPA's wisdom) as an extraregional resource must be recognized in the various provisions of the Policy. For example, because Colstrip 4 is a thermal resource and the Assured Delivery being granted to Montana Power is dedicated to transmission for that resource pursuant to § 9(i)(3), it makes no sense to decrease the amount of Assured Delivery for that resource because of concerns about fish and wildlife. Also, because BPA insists that the remainder of Colstrip 4 is extra-regional, BPA must recognize that it cannot decrease Montana Power's Assured Delivery if Montana Power is successful in obtaining alternative transmission paths into the Southwest for the remaining power. (If BPA wishes to control the remainder of Montana Power's share of Colstrip 4, then it must recognize its regional responsibility for that resource and provide Assured Delivery for the entire 210 megawatts.) It also should be recognized that Montana Power has already met its responsibility by offering the resource to the region; that is why Colstrip Unit 4 is a § 9(i)(3) resource. By offering that 210-megawatt resource to the region, Montana Power has already firmed up its future resource requirements that it might place on BPA, and, therefore, the provision that a utility must waive its right to place load requirements on BPA if it sells power out of the region should not apply to any power which is being sold pursuant to § 9(i)(3). Montana Power met its obligations when it offered Colstrip 4 to BPA and should not be penalized because BPA chose not to purchase the resource.

Sincerely,

Robert L. Miller

Robert L. Miller

dof0037ks

NORTHWEST POWER PLANNING COUNCIL

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February 19, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # LETTER-5-313
RECEIPT DATE:
FEB 2[illegible] 1988
AREA: DISTRICT
ALL
cc: L. Larson - AR

Mr. John A. Cameron, Jr.
IAP Project Manager
Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

Dear Mr. Cameron:

This responds to your letter of February 11, 1988, raising several matters of interest with respect to the comments on the Long-Term Intertie Access Policy.

Your first question asked commenters' views on possible conflicts between the policy's proposed reduction of access for resources located in protected areas and obligations imposed on utilities by PURPA. The Washington Utilities and Transportation Commission's interpretation of PURPA is consistent with the Council's. We note that the State of Oregon has already committed to work toward a solution of this problem, and the Council would be willing to work with public utility regulators from the other Northwest states to resolve the issue in the manner suggested by the Washington Commission.

You also asked, if Bonneville adopted the Council's suggestion that access to the intertie for existing resources be based on consistency with the Columbia River Basin Fish and Wildlife Program, when should Bonneville make a determination of consistency or inconsistency? The Council believes that, because the fish and wildlife program is in place, consistency determinations could be made in the near term. The program's measures are clear, and the Council is committed to monitor and amend the program so that the program's measures and timetables remain appropriate and realistic. The Council would work with Bonneville to develop a process for making consistency determinations.

Finally, in response to the Council's comment that the protected areas proposal does not view potential protected areas as including existing resources, you asked what an existing resource is. The Council's fish and wildlife program calls for the Council to designate stream reaches and wildlife habitat areas to be protected from future hydroelectric development, as opposed to past hydroelectric development. See Columbia River Basin Fish and Wildlife Program, section 1103(c)(2). The Council is now conducting a public process that may lead to the consideration of a formal amendment to the Fish and Wildlife Program and/or the Power Plan in which the distinction between new and existing development may be defined further. As we stated in our February 5, 1988 letter, the Council has not yet made any decisions on protected areas.

Thank you for your courtesy.

Very truly yours,

Morris Brusett

Morris Brusett
Chairman

Direct Service Industries, Inc.

925 LLOYD CENTER TOWER ☐ 825 N.E. MULTNOMAH STREET ☐ PORTLAND, OREGON 97232-2150 ☐ 503 231-4445

February 19, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # LTIAP-3214
RECEIPT DATE:
FEB 29 1988
AREA: DISTRICT
All

John A. Cameron, Jr.
Assistant General Counsel
Bonneville Power Administration
1002 N. E. Holladay
Portland, Oregon 97232

RE: Long Term Intertie Access Policy

Dear John:

These reply comments to BPA's Revised Draft Long Term Intertie Access Policy ("LTIAP") are submitted on behalf of the members of Direct Service Industries, Inc. We address three points: 1) we rebut the arguments that BPA is required to grant intertie access to non-federal users and to impose the risk of revenue losses on its power customers; 2) we provide a reasonable estimate of the real cost of providing assured delivery of non-federal power; and 3) we urge BPA to adopt more effective means of mitigating the costs of formula allocations for nonfirm access.

Legal Standards

In the DSIs' initial comments, we demonstrated that BPA is required to give itself priority in any allocation of intertie access. Several statutory provisions require BPA to allocate federal intertie capacity to preclude losing federal sales due to lack of intertie access. Alternatively, BPA must ensure complete mitigation for lost federal sales. Any other course would prevent BPA from marketing its power at the lowest possible rates consistent with sound business principles.

Some commenters argue erroneously that the legislative history of the Regional Preference Act requires BPA to grant access to non-federal sellers even though BPA would be required from time to time to spill federal energy. The language these commenters quote does not support their argument. The Ninth Circuit, after reviewing the quoted language, concluded that BPA is not required to make intertie capacity available unless the capacity is in excess of BPA's current and foreseeable needs. Department of Water and Power of the City of Los Angeles v. BPA, 759 F.2d 684, 692 (9th Cir. 1985). BPA's needs include capacity for delivery of federal nonfirm energy not sold in the Northwest.

The purpose of the proposed LTIAP is to allocate the intertie when it is inadequate to meet all needs. The mere fact that, at times, there is excess intertie capacity does not impose

on BPA an obligation to provide access at other times. BPA has the discretion, but no obligation, to provide such access. If it exercises that discretion, BPA must meet its statutory and other obligations, including its obligation keep power rates as low as possible.

In the draft LTIAP, BPA proposes measures which mitigate only a small portion of the revenues lost from granting assured delivery and does not propose to mitigate any of the damage incurred by the formula allocations of nonfirm access. In spite of the DSIs' repeated requests, BPA has not measured the revenue loss from granting assured delivery in the event that the third A.C. intertie is not built or the revenue loss due to the proposed formula allocations. Therefore, on the record before it, BPA has no rational basis to adopt any LTIAP. See, City of Los Angeles, 759 F.2d at 684 (9th Cir. 1985) citing Citizens to Preserve Overton Park v. Volpe, 401 U.S. 402, 416 (1971).

BPA recently proposed alternatives to two sections of the policy. First, BPA proposed a dollar per kilowatt charge for assured delivery in lieu of partial mitigation through operating constraints. Second, BPA proposed to allocate nonfirm access based upon the physically available intertie capacity, instead of allocating to market.

Assured Delivery

The DSIs support the use of fixed charges rather than operating constraints for mitigation. A dollar charge would directly mitigate the revenues lost by BPA, whereas operational restrictions may not work. The dollar charge, however, must be sufficiently high to mitigate BPA fully for all reasonably foreseeable harm.

The operational constraints BPA proposed initially would not fully mitigate BPA's revenue loss. Therefore, a charge based on that level of mitigation would be inadequate. The $10 per kW charge proposed by BPA is also substantially less than necessary.

BPA has estimated its losses for granting 800 MW of assured delivery at $15 million to $26 million annually or $19 to $33 per kW. With its limited operational mitigation, BPA estimates its loss would be $13 million to $21 million annually or $16 to $26 per kW. PNUCC has estimated the cost to BPA of making 695 MW available for seasonal exchanges would be as high as $25 million annually or $36 per kW. All of these estimates substantially understate the cost of granting assured delivery.

BPA's average revenues from surplus and nonfirm energy sales to the Southwest for the years 1984 through 1986 were $350 million per year. (See Generation and Sales Statistics for FY

1984, 1985 and 1986.) The federal share of the intertie is 4200 MW. Thus, BPA's average annual revenues from Southwest sales were $83 per kW of intertie capacity. This is a reasonable approximation of the revenues BPA will lose for each kilowatt of assured delivery granted to non-federal users.

The replacement cost of intertie capacity is an alternative measure of the cost of granting assured delivery. BPA estimates that it will cost $267 million to build the additional 800 MW of intertie to California. BPA also estimates that an annual charge of $56 per kW is needed to recover the cost of this expansion. (See, BPA's "Draft Study of Non-Federal Participation in the Northern Portion of the Third A.C. Intertie.")

BPA should not provide assured delivery to the intertie for less than the greater of the replacement cost of the capacity or the foreseeable revenue loss BPA will suffer. BPA's Study on Non Federal Participation and its Generation and Sales Statistics for 1984 through 1986 show that the appropriate annual cost of access is between $56 and $83 per kW. (We request that BPA incorporate these documents into the record and will be happy to provide copies, if needed.) Plainly, the proposed $10 per kW mitigation charge is inadequate.

Formula Allocation

BPA has not analyzed the cost to BPA of the proposed formula allocation for nonfirm access in lieu of a "BPA First" policy. The DSIs have repeatedly urged BPA to make the necessary economic analysis which would provide some rational basis for allocating nonfirm access and for determining appropriate mitigation measures.

In its 1987 rate case, BPA estimated that it on average will spill approximately 552 MW of power in each of FY 1988 and FY 1989. (The rate case assumed a formula allocation similar to the proposed policy.) (See pages 115 and 116 of the Final Documentation for the Wholesale Power Rate Development Study, which we incorporate into these comments by reference.) Conservatively, half of this federal spill could be avoided if BPA adopted a "BPA First" policy for nonfirm access. Assuming an average rate of 20 mills/kWh, BPA's revenues could be enhanced by $48 million annually. This is a rough estimate, but it demonstrates the significance of the annual cost to BPA of its formula allocation. BPA should not adopt any LTIAP until it has taken a hard look at the cost of proposed nonfirm allocation formulas and appropriate mitigation. The mere fact that the formula allocation is similar to contractual arrangements negotiated twenty years ago under different circumstances does not discharge BPA's obligation to have a rational basis for its current policies.

In our initial comments, we urged BPA to allocate nonfirm access based on the size of the Southwest market during both Conditions 1 and 2 as partial mitigation for its failure to adopt a BPA First policy. As an alternative to allocating to market, BPA now proposes a true-up method whereby BPA's allocation would be increased in subsequent days to the extent that it was unable to sell, at any price, its full pro rata allocation under Condition 1. If BPA substitutes a true-up mechanism for allocating to market, the true-up mechanism should be amended in two ways. First, the true-up should be extended to cover Conditions 1 and 2. Second, the true-up should be based upon BPA's sales at the standard nonfirm rate and should exclude sales made by BPA at market expansion rates.

Summary

We urge BPA to assess fully the economic consequences of its proposed LTIAP and incorporate charges or other means to mitigate all the foreseeable harm of granting non-federal users access to the federal intertie capacity which BPA needs to market its surplus and nonfirm energy. It is unlawful and inequitable for BPA to surrender its use of the federal intertie so that others may profit, and impose the resulting costs on its power customers. If there are regional benefits from non-federal use of the intertie, then non-federal users should be willing and able to compensate BPA for its losses.

Sincerely,

John D. Carr
Executive Director

cc: Teresa Cunningham Byrnes
Acting Public Involvement Manager

NORTHWEST CONSERVATION ACT COALITION

3429 Fremont Place North • Suite 308 • Seattle WA 98103 • 206/547-6910

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-215
RECEIPT DATE:
FEB 29 1988
AREA: DISTRICT
I (06)

February 24, 1988

Jo Ann Scott, Public Involvement Manager
Bonneville Power Administration
P.O. Box 12999
Portland, Oregon 97212

RE : Final Final Comments on Access Policy

Dear Jo Ann:

In reviewing our comments of February 18 on the Intertie Access Policy, I note that I inadvertently forget to make one point that we have previously made in oral comments. I trust it is not too late for Bonneville to take official notice of this reiteration of that point.

Specifically, I wanted to state again our strong support for allowing firm access for seasonal exchange transactions. These transactions are among the kinds of deals the Intertie was originally intended to facilitate. They are useful in both the Northwest and California in reducing system peaks and consequent needs for new peaking resources (although this is clearly a more pressing present concern for California than for our region). They are also the most practicable kind of transaction for several of our major utilities to conclude. We think that your decision, a couple of drafts ago, to grant access for these deals was a sound one and we urge you to stick with it.

At the same time, we understand Bonneville's concern about possible financial impacts on the agency, leading to your desire to arrange some sort of mitigation of those effects. While attending to those financial concerns, we hope you will be able to assure that mitigation does not become a barrier to allowing the access for seasonal exchanges that I think we have all come to agree is appropriate.

Thanks for your consideration of these slightly tardy comments.

Sincerely,

Marc ullivan
Executive Director

FEB 26 1988

600 South Walnut • Box 25
Boise, Idaho 83707

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG #: LTIAP-3-216
RECEIPT DATE:
MAR 03 1988
AREA: DISTRICT
WL (OWL)

February 19, 1988

U.S. Department of Energy
Bonneville Power Administration
P. O. Box 3621
Portland, OR 97208

Dear Sirs:

The Idaho Department of Fish and Game has reviewed the Bonneville Power Administration Long-Term Intertie Access Policy (LTIAP). We offer the following comments:

We support the concept of using the LTIAP to discourage hydro development in streams with important fish and wildlife resources. We believe that Protected Areas should include anadromous and resident fish and wildlife habitat. We are opposed to a program that protects one resource (anadromous) at the expense of another (resident fish or wildlife).

We believe it is very important to maintain and update the Northwest Rivers Database to ensure that BPA and the Power Planning Council have the best available information on which to base decisions. The database will also play an important role in revising and updating Protected Areas when system planning is completed or as new information becomes available.

There are a couple of points that are not clear to us--If the Power Planning Council (PPC) does not implement a Protected Areas Program, will BPA implement its own Protected Area Program for Intertie Access? Will BPA use the PPC's Protected Area Designation if it only protects anadromous fish and does not address resident fish and wildlife?

The protection and enhancement of fish and wildlife habitat in the Columbia River Basin is the corner stone of the PPC Fish and Wildlife Program. The proposed LTIAP will help achieve the goals of the Fish and Wildlife Program and protect rate payer investments. We support the concept and urge BPA to implement a policy that protects habitat for anadromous and resident fish and wildlife.

Sincerely,

Jerry M. Conley
Director

JMC:TT:tlv

EQUAL OPPORTUNITY EMPLOYER

IDAHO WILDLIFE FEDERATION
Kent Henderson, President
2405 Fifth Street
Lewiston, Idaho 83501
Telephone (208) 746-9046
February 27, 1988

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # LTWP-3-217
RECEIPT DATE:
MAR 03 1988
AREA: DISTRICT
WL (AWL)

Donna L. Geiger
Office of Public Involvement
Bonneville Power Administration
905 N.E. 11th Ave.
Portland, Oregon 97232

Dear Ms. Geiger:

The Idaho Wildlife Federation, having reviewed the comments submitted by Idaho Attorney General Jim Jones on December 30, 1987, wishes to inform you that we concur in Mr. Jones analysis that the proposed intertie program continues to pose unacceptable risks to the wild salmon and steelhead resource of the upper Columbia River Basin. In addition to Mr. Jones comments, we offer, in example, the present efforts on the part of a Connecticut firm and now the FERC Project Number 10543 by the Public Utility District Number 1, Asotin County, Washington, dated February 17, 1988. We suggest that without the specter of the intertie, these projects would not be considered economically feasible by their instigators.

Current BPA practice does not provide wildlife and fish values substantive equity of treatment with power production and sale as required. According to BPA figures, Amortized Fish and Wildlife Assets account for only .0009 of total assets. While, annual expenditures for fish and wildlife accounted for about 17% of the PBA's discretionary budget, this amounted to far less than 2% of total exenditures. Fixed costs appear to have been manipulated to the detriment of fish and wildlife values.

BPA expenditures indicate a willingness to pay upfront costs for power, largely financing these costs by borrowing. This 'economizing' creates future debt and still leaves fish and wildlife values under-funded.

Current proposals for long term power contracts that would use the intertie with Southern California do not adequately address the affects of low water years such as 1987 and projected for 1988. There is recent research data that suggests these low water years are not flukes and may well be often repeated in the near future.

Long term power contracts currently under negotiation with Southern California utilities would obviously use the intertie (and in fact are the reason for its proposed existence). The calculations of availability of so-called "surplus power" to be sold under these contracts do not adequately address the affects of low water years such as occurred in 1987 and is projected for 1988. Recent research suggests these low water years are not flukes and may well be often repeated in the near future. The effect of such low years, coupled with an increased demand for power could be disastrous to our fisheries.

The IWF concurs that the Hydro Operations Information Paper does adequately address wildlife and fisheries concerns.

Sincerely,

Kent Henderson

Affiliated with the National Wildlife Federation

RECEIVED BY BPA
PUBLIC INVOLVEMENT
LOG # LTIAP-3-218
RECEIPT DATE:
FEB 19 1988
AREA: DISTRICT
P-3

BEFORE THE
BONNEVILLE POWER ADMINISTRATION
DEPARTMENT OF ENERGY

In the Matter of:)
)
Adoption of Long Term)
Intertie Access Policy (LTIAP))
)

COMMENTS OF THE CALIFORNIA ENERGY COMMISSION REGARDING THE REVISED DRAFT LTIAP

The California Energy Commission (CEC) submits the following comments on the Bonneville Power Administration's (BPA) proposed Revised Draft Long-Term Intertie Access Policy (LTIAP).[1] We have previously filed extensive comments on the 1986 draft of the LTIAP--most of which have had no effect, unfortunately, in the creation of the revised draft.[2] Nevertheless, those comments continue to have vitality when considered in relation to the current draft policy, and the following matters contained therein, in particular, warrant careful consideration by the Administrator:

[1] Throughout these comments, references to the LTIAP will relate to the revised draft that BPA released to the public on December 15, 1987, unless specific reference is made to the original draft LTIAP released in 1986. During the course of public comment sessions on this 1987 draft, BPA has released alternatives related to specific features of the LTIAP (e.g. an alternative to the "hydro cap" proposed in the revised draft for Condition 1 allocations). Any discussion of these alternatives will be specifically named by reference to the date on which the alternative was released to the public. In addition, we will refer to the document entitled "Explanation of BPA's Revised Draft Long Term Intertie Access Policy," which was released on December 15, 1987 with the revised draft LTIAP, as "LTIAP Explanation."

[2] We incorporate those 1986 comments (hereafter "CEC Comments") by reference, and ask that they be made part of the record of this proceeding.

(1) the pro rata allocation scheme for spot market transactions[3], now proposed to be continued indefinitely in the LTIAP, gives California no incentive, in the long term, to avoid development of qualifying facilities and other indigenous resources that will diminish the opportunities for BPA and other Northwest sellers to obtain revenue for surplus power (CEC Comments at 2-8);[4]

(2) the proposed LTIAP, like the NTIAP, is inconsistent with antitrust principles and does not adequately explain why less anticompetitive alternative allocation mechanisms could not adequately serve BPA's need to achieve sufficient federal revenues (CEC Comments at 11-15);

(3) the LADWP opinion, while recognizing BPA's statutory priority to access to the Intertie, prohibits BPA from holding back access to the Intertie based on mere speculation that BPA

[3] Throughout this document we will refer to spot market energy transactions to include all energy, whether firm or nonfirm, that is scheduled over BPA's transmission lines on an hourly basis in accordance with section 5 of the LTIAP.

[4] Indeed because the policy virtually guarantees that the future price of nonfirm energy from the Pacific Northwest will be as close to California decremental costs as Northwest operators can make it, the policy gives California parties an incentive to take actions that clearly would not otherwise be cost effective. In footnote five of our comments, we listed several hundred megawatts of facilities that had been licensed during the period the NTIAP had been in effect. Since then, additional baseload qualifying facilities that have been approved by the CEC include the Midway-Sunset Cogeneration facility (225 MW), the Basic American Foods Cogeneration facility (120 MW), the Chevron Richmond Refinery Cogeneration facility (99 MW), and the Kerr-McGee Argus Cogeneration facility (90 MW).

may have energy in the future to serve the same customer (CEC Comments at 18-22); and

(4) the statutes that provide BPA's authority to administer the Intertie do not permit BPA to discriminate against Canada and other extra-regional utilities (CEC Comments at 8-11).

To its credit, BPA has improved on the 1986 draft in the area of assured delivery by proposing to provide some access for seasonal exchanges and by attempting to analyze with greater precision what "harms" to BPA from firm transactions BPA expects to be compensated for. Unfortunately, these advances are more than counterbalanced by the arbitrary limits on assured delivery for seasonal exchanges, the prohibition on other types of exchanges, and the arbitrary "mitigation" required for alleged harm to BPA.

In these comments, the CEC will focus on the three major areas of the revised draft LTIAP: (1) formula allocation, (2) assured delivery, and (3) fish and wildlife protection. Each one of these first three sections of our comments explains how BPA has failed to justify various aspects of the policy and why those aspects are invalid. The fourth and final section of our comments explains why adoption of the revised draft LTIAP will result in serious harm to BPA and the entire Northwest.

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FORMULA ALLOCATION

The central feature of the LTIAP (and the NTIAP before it) is the pro rata allocation scheme by which the California market for spot energy from the Pacific Northwest is horizontally allocated into mini-monopolies for Northwest sellers and is made inaccessible (except during Condition 3) to nonregional sellers. The purposes and effects of the pro rata allocation scheme are (1) to allow the Pacific Northwest power community to maximize the revenue it receives from spot market energy sales to California by eliminating any price competition among Northwest sellers, and (2) to divide the economic gains thus derived among the Pacific Northwest sellers of spot market energy. Thus, much of the debate in the Northwest over formula allocation centers around who should get a larger slice of the California pie under various operating conditions.[5] As Jerry Garman of Seattle City Light noted, BPA must find a way of dividing the spoils of its policy that will provide "some degree of equity among thieves." Transcript, p. 823, l. 4-5.

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[5] Examples of this debate include (1) whether BPA should have a "hydro cap" under Condition 1 or allow utilities with thermal resources to make declarations; and (2) whether BPA should allocate the Intertie to the size of the California market at BPA's chosen price or allow some competition for that market but then "true up" the allocation by increasing BPA's share of a later day's market. See Transcript, p. 804.

Those of us whose pockets are being picked by the pro rata allocation scheme have a different perspective on the LTIAP. We reject entirely the assumption, made by every Northwest party throughout these proceedings, that pro rata allocation and the cartel pricing benefits it brings the Pacific Northwest are and should be a given.[6] Not only is this scheme unfair to California ratepayers, but in implementing it, BPA is also failing to carry out its legal obligations as a federal agency.

Thus far six judges of the Ninth Circuit Court of Appeals have fully recognized the anticompetitive nature of the pro rata allocation scheme. In Department of Water and Power of the City of Los Angeles v. BPA (9th Cir. 1985) 759 F.2d 684 (hereafter LADWP) the court recognized that "[T]he effect of Condition 2 is to reduce competition among Northwest utilities both for Intertie

[6] Yet this assumption has driven every important analysis BPA has performed on this policy. For example, when BPA attempts to estimate what the economic impact on BPA would be from providing assured delivery on the Intertie for seasonal exchanges between other Pacific Northwest sellers and California utilities, the entire study begins from the premise that the pro rata allocation scheme would operate to create a revenue maximizing market for BPA and other sellers under Conditions 1 and 2; BPA then measures the effect that seasonal exchanges will have on that artificially inflated market. No alternative allocation procedures that would provide greater competition for the California market were analyzed. This creates the impression that BPA does not intend to give any such alternatives serious consideration in this proceeding.

capacity and for California purchasers and to equalize the prices at which Northwest power can be sold." 759 F.2d at 696.[7]

More recently, in California Energy Resources Conservation and Development Commission v. Bonneville Power Administration (9th Cir. 1987) 831 F.2d 1467 (hereafter CERC) the majority opinion described the pro rata allocation scheme as creating "a regularly shifting, horizontal division of the market for nonfirm surplus energy [whereby] each eligible producer is temporarily granted sole access to a specified share of the capacity, which it may either use or allow to remain unused without fear of competition by other producers." 831 F.2d at 1475.

In the same case, Judge William Norris noted in his dissenting opinion that the "pro rata allocation scheme for available intertie capacity--a scheme which if implemented by a private party would plainly violate the antitrust laws--paternalistically restricts price competition among Northwest utilities and denies Southwest utilities and energy consumers the benefit of free market pricing for surplus energy offered for sale by privately-owned Northwest utilities. The interim access policy's interference with free market pricing simply creates a cartel for the Northwest utility companies in the sale of power to the Southwest." 831 F.2d at 1479.

[7] This conclusion is equally applicable to Condition 1, of course; the court did not consider Condition 1 in its opinion. See 759 F. 2d at 689 and 691 n.10.

Although these decisions refused to set aside BPA's near term policies[8] and although they state that BPA is entitled to restrain competition against itself, if that is necessary to permit BPA to be a self-financing power marketing agency[9], neither case supports BPA's long term proposal to restrain trade among non-federal sellers and create a spot market energy cartel. All these cases, and other applicable precedent, do is to allow BPA the leeway to balance other appropriate statutory considerations along with antitrust policies. Gulf States

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[8] In opposing rehearing of the CEC case en banc, BPA relied heavily upon the imminent issuance of the LTIAP, which BPA attorneys alleged could "render petitioners' antitrust concerns moot in the near future." Response of Bonneville Power Administration to Petitions for Rehearing, at p. 8. We had no opportunity to reply to BPA's Response and so the court was not informed that the proposed LTIAP not only retains the fundamental structure of the NTIAP through formula allocation procedures, but also proposes to restrict competition even further than the NTIAP did by allocating Intertie capacity to the California market (defined by BPA's price), rather than allocating to the size of the Intertie as in the NTIAP (which apparently permitted some limited competition among sellers). See LTIAP Explanation at 16. The court denied the Petition for Rehearing and Suggestion for Rehearing En Banc on February 4, 1988, but to the extent that the court believed BPA's assertion that antitrust problems might well be resolved in the LTIAP, the court was clearly misinformed.

[9] BPA should also remember that neither of these cases has received any review, at this time, by the United States Supreme Court, and the holdings of these cases could therefore be modified or reversed entirely at some point in the future. The CEC, in these comments, will assume that the holdings of these cases are given since they are currently the law, but we expressly reserve the right to challenge the Ninth Circuit's view of BPA's proper authority in future litigation.

Utilities Company v. Federal Power Commission (1973) 411 U.S. 747, 93 S.Ct. 1870.[10]

What does BPA's duty to consider and weigh the anticompetitive impacts of the revised draft LTIAP mean? The Court of Appeals for the D.C. Circuit has explained the process that federal agencies must adhere to as follows. First, the agency must determine whether an action will have anticompetitive effects.[11] If an action does violate the policies of the antitrust laws, the agency must next weigh the anticompetitive effects of the action against the extent to which the action will carry out the statutory policies that the agency is charged with effectuating, and thus determine if, on balance, the action is in the public interest. Gulf States Utilities Co. v. Federal Power Comm'n (1973) 411 U.S. 747, 759, 93 S.Ct. 1870, 1878; Northern Natural Gas Company v. Federal Power Comm'n, (D.C.Cir. 1968) 399 F.2d 953, 977; City of Huntingburg v. Federal Power Comm'n, (D.C.Cir. 1974) 498 F.2d 778, 784. Finally, if the agency

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[10] See also Northern Natural Gas Company v. Federal Power Commission (D.C. Cir. 1968) 399 F.2d 953; City of Huntingburg v. Federal Power Commission (D.C. Cir. 1974) 498 F.2d 778; Latin America/Pacific Coast Steamship Conf. v. Federal Maritime Comm. (D.C. Cir. 1972) 465 F.2d 542, cert. denied, 409 U.S. 967 (1972); Maryland People's Counsel v. FERC (D.C. Cir. 1985) 761 F.2d 780. Indeed, the majority opinion in CEC notes that Congress "specifically articulated its intent that BPA operate its transmission lines in part 'to prevent monopolization thereof by limited groups.'" and that this statutory language is even more specific than the "public interest" language relied upon in the Gulf States line of cases. 831 F.2d at 1475 n.4.

[11] Of course, with respect to the LTIAP, the Ninth Circuit has already made this determination, in the affirmative.

"concludes that the restrictive provisions both vindicate some public interest and violate antitrust policy, it should 'ascertain whether there exist "alternative courses"'" that would be less anticompetitive while still carrying out the agency's statutory policies. City of Huntingburg, 498 F.2d at 788; see also CEC, 831 F.2d at 1477 - 1478. Thus, whenever possible, "the duty of the agencies and courts is to accommodate or harmonize antitrust and regulatory principles." Latin America/Pacific Coast Steamship Conf. v. Federal Maritime Comm. (D.C.Cir. 1972) 465 F.2d 542, 547, cert. denied, 409 U.S. 967 (1972).

BPA must therefore be able to show that it has considered alternative methods of allocation and has chosen the least anticompetitive alternative consistent with its statutory mandates. As we explain in detail below, however, BPA has utterly failed to make the required showing. It has given no serious consideration to less anticompetitive alternatives, has performed little analysis to determine the revenue impacts on BPA of its own proposal as compared with others that we have been suggesting for many months,[12] and has not even supported its own principal rationale (alleged anticompetitive practices at the southern end of the Intertie) for the most anticompetitive aspects of the policy with any serious qualitative or quantitative analysis. Adoption of the LTIAP in its current

[12] On February 16, 1988 we received two analyses of the effects of the Northwest cartel on BPA revenues. The analyses, which we discuss below, show that any adverse effect is minimal.

form, based on the current deficient record, will therefore result in judicial remand to BPA in order to require the mandated consideration of anticompetitive impacts and more competitive alternative policies to take place.

Fulfilling the duty to harmonize antitrust principles with BPA's statutory mandates requires BPA to undertake separate assessments of (1) BPA's use of monopoly power to generate more federal revenues from sales of federal energy to California and (2) BPA's creation of a cartel for others Northwest utilities. The remainder of these comments on formula allocation will therefore address each of these issues separately.

A. Formula Allocation to BPA for Spot Market Sales of Federal Energy

BPA's justification for shielding itself from competition by other energy sellers is that such protection is necessary in order to permit BPA to recover sufficient revenues to meet its obligations to the federal treasury.[13] LTIAP Explanation at 1.

[13] Although BPA has cited only its own revenue needs as justification for protecting itself from competition, the law requires Bonneville to weigh antitrust concerns along with all of the applicable statutory policies that BPA is charged with implementing. (See discussion and cases cited at pp. 8-9 above.) In this regard, it is instructive that although the CEC court dealt explicitly only with BPA's revenue needs, the statutes it cited as supporting BPA's need to be fiscally self-supporting also contain other important statutory policies. See CEC, 831 F.2d at 1475, citing 16 U.S.C. §§ 832f, 838g, and 839e(a)(1). With regard to BPA's extraregional nonfirm rates, the Federal Energy Regulatory Commission has stated that taken together, those statutes (and other statutory provisions to which they in turn refer) require BPA to design rates:

1. having regard to the recovery of the cost of

However, BPA has never provided a meaningful analysis of (1) how much revenue BPA really needs to recover from California in order to meet its treasury obligations and (2) how much protection from competition is necessary to achieve that revenue goal. The CEC believes that with respect to a policy that BPA intends to place into effect for 20 years, the Courts will expect more than the bald assertion that BPA needs to protect itself throughout each year from all competition from Pacific Northwest and Canadian sellers of energy.

Based on this belief, we suggested last year in our comments on the 1986 draft LTIAP that BPA needed to determine its revenue needs from California and analyze the impacts of varying levels of competition on BPA revenues so that it could have an evidentiary basis for determining the extent to which it actually needed to restrict competition in order to meet its needs. In

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generation and transmission of such electric energy;

2. so as to encourage the most widespread use of BPA power;

3. to provide the lowest possible rates to consumers consistent with sound business principles; and

4. in a manner which protects the interests of the United States in amortizing its investments within a reasonable period.

Opinion 250, U.S. Department of Energy, Bonneville Power Administration, 36 FERC ¶ 61,335, at 61,798 (1986). As we discuss more fully in part IV of our comments, the CEC respectfully submits that the LTIAP will do substantial harm to BPA's statutory goals of encouraging the most widespread use of its power and of providing the lowest possible rates to consumers consistent with sound business principles. That harm, along with violations of the policies of the antitrust laws, must also be weighed as BPA assesses the revised draft LTIAP.

response to a Freedom of Information Act request of December 15, 1986, in which we asked if BPA had performed the analysis necessary to determine what percentage of its sales required protection from competition, BPA responded that, to date, it had not performed any such analysis.

We assumed that in the year since we filed that request, BPA would have undertaken at least some analytic effort to show that it needs to restrict competition with its sales, so we followed up with another Freedom of Information Act request dated January 25, 1988,[14] in which we asked the following questions:

> 1. (a) How much revenue does BPA need from (1) firm power sales to California, (2) nonfirm power sales to California, and (3) other transactions with California in order to meet its obligations to the Federal Treasury?
>
> (b) How much of the Pacific Intertie must BPA reserve for its own sales, under conditions of (1) spill (i.e., Condition 1) and (2) nonspill (i.e., Condition 2 or 3), in order to obtain the amount of revenue from California specified in response to question 1(a)?

In response to question 1(a), BPA responded by providing projections made during BPA's 1987 rate proceeding of the revenues expected to be recovered from California for fiscal years 1988 and 1989. Those projections, of course, like all of

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[14] This Freedom of Information Act Request and an index of the substance of BPA's response to it are attached to these comments and incorporated by reference. Since BPA provided approximately 18 inches of unsorted documents (many of which appear to relate only to the final, very general question we asked), only an index of these documents is attached. Also attached is our letter protesting the lack of responsiveness in BPA's response.

BPA's analyses, assumed that the pro rata allocation scheme of the NTIAP would be in place. See WP-87-FS-BPA-06, Table 12, l. 19. BPA's answer is therefore completely nonresponsive to the question which asked not for BPA's expectation as to how much revenue it will be able to collect with the pro rata allocation scheme in place, but rather, how much revenue from California does BPA really need? If we assume that BPA's response was trying to answer this question, then BPA has answered that Bonneville needs as much revenue from California as it can possibly extract when competition from other Northwest sellers is eliminated. Thus BPA's justification for eliminating competition from other Northwest sellers is circular: this is the only way it can recover from California as much revenue as it can with competition from other Northwest sellers eliminated.

BPA has provided no response at all to our question 1(b), concerning the percentage of the Intertie BPA must reserve for its own sales in order to meet its revenue requirements. Having failed to define how much Intertie capacity it needs, BPA cannot justify a policy that shields its capacity from market competition. BPA's attempt to protect itself from competition on the basis that its revenue needs so require also fails because the pro rata allocation scheme itself implies that BPA is willing to give up very substantial amounts of revenue. Obviously, under the pro rata scheme BPA will make fewer sales than it would under a policy through which BPA simply allocated to itself all the

Intertie capacity it can use. BPA has provided no explanation why that revenue loss from sharing the Intertie voluntarily is acceptable, while a loss of revenue that would result from opening up the Intertie to competition is not acceptable.[15]

During this proceeding, we have heard arguments in favor of the pro rata allocation scheme (as opposed to a policy that would provide BPA with more access) advanced by those Northwest utilities who benefit from the scheme. Those arguments--which have nothing to do with BPA's revenue needs, but quite a lot to do with the economic interests of the proponents of the arguments--assert that a pro rata allocation scheme was contemplated when the Intertie was first proposed, and was carried out immediately thereafter through the Exportable Energy Agreement. We firmly dispute the contention that the legislative history of the 1964 Regional Preference Act gives these utilities a legal right to pro rata allocation, but we note that even if this contention were true, it would not prevent BPA from taking a larger than pro rata share under all conditions. The long

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[15] We understand that in the absence of the type of analysis BPA should have done to justify its limitation of competition with its own sales, Pacific Gas and Electric Company has performed a study that attempts to quantify the revenue impact on BPA of permitting free and open competition with BPA spot market energy sales. This study, by Decision Focus, Inc. concludes that the revenue impact of allowing competition is small enough to be covered by a 5 percent rate increase in the Pacific Northwest. This study strongly suggests that BPA may have a more difficult time convincing the courts this time that it has reasonably concluded that it needs to restrict competition in order to be a self-financing federal agency.

history of how "pro rata allocation" was actually implemented, with no complaint by these utilities for many years of that history, shows that it (1) was limited to Condition 1 operating conditions, and (2) involved sales at BPA prices that were low enough to insure that only surplus hydro resources were being used.[16]

The NTIAP greatly expanded the use of pro rata allocation far beyond any reasonable expectation held by Congress or the beneficiary Northwest utilities in 1964. Thus even if BPA did have to provide pro rata allocation under conditions similar to those that brought the Exportable Energy Agreement into operation (which we dispute), it could certainly provide itself a greater than pro rata allocation under other conditions if that were necessary to achieve its reasonable revenue objectives while

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16 Indeed, BPA explained the operation of the Exportable Energy Agreement to the Ninth Circuit Court of Appeals in the case of California Energy Commission v. Johnson, 767 F.2d 631 (9th Cir. 1985) as follows:

> "'When a party schedules its appointed "Exportable Energy" to BPA, such party's energy is combined with all other Exportable Energy, and sold by BPA as Federal energy to California utilities under existing power sales contracts at the lowest rate specified under BPA's Wholesale Nonfirm Energy Rate Schedule. The scheduling party is credited (i.e. paid) for its "sale" of Exportable Energy by BPA at the referenced rate.'"

767 F.2d at 634 (emphasis added). This explanation makes it crystal clear that before the introduction of the NTIAP, scheduling utilities only had the expectation of a pro rata share of the California market at BPA's spill rate, and only during what is now known as Condition 1 operating conditions.

harmonizing those objectives with the procompetitive principles of the antitrust laws.

Unfortunately, BPA seems to have assumed, throughout its consideration of the LTIAP, that with regard to its own share of Intertie capacity, its only choices are either (1) to eliminate all competition with its sales (as it does in the LTIAP) or (2) to permit free market competition without any restriction (as it generally did before the NTIAP). The CEC obviously prefers the latter end of the spectrum, but suggests that there is a vast middle ground between these extremes that needs to be explored. For example, BPA has developed its nonfirm energy rate by reference to the fully allocated "cost" of that energy.[17] Assuming that BPA demonstrated that it needed to restrict competition in order to meet its revenue needs, BPA could restrict competition with its sales when it is selling at or below this "cost-based" rate, but permit competition with its sales when it sets a rate higher than its fully allocated cost. If this method would not permit BPA to recover its fully

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17 As BPA knows, we and other California parties have, on several occasions before BPA and the FERC, argued that costs that do not contribute to the production of nonfirm energy (such as capacity costs and the costs of mothballed nuclear plants) are not properly included in the calculation of nonfirm rates. We acknowledge that FERC's decision in Opinion 250 (36 FERC ¶ 61,335) allows the inclusion of such costs (other than the residential exchange). However, we wish to note for the record our continuing opposition to the inclusion of those costs and our current 9th Circuit challenge to their inclusion.

allocated cost on average[18], which BPA has often stated is its goal in the spot market[19], BPA could mitigate this impact by slightly increasing its share of the Intertie. This alternative, which we will call "Competition Above Cost," would not permit as much competition as California believes BPA should be providing, but it would provide more than BPA's proposal while also providing reasonable assurance that BPA could meet its revenue goals.[20]

Other alternatives that are more competitive than the one BPA has chosen could also be designed. The point is that BPA's duty to harmonize its revenue needs with antitrust principles

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[18] Since BPA has set its "cost-based" revenue target at the "fully allocated cost" of nonfirm energy with no allowance whatsoever for the fact that this energy is of lower quality than the firm energy BPA provides to its Pacific Northwest customers, BPA sometimes has difficulty recovering what it claims to be its "cost" when California utilities have cheaper resources available. BPA therefore has given itself flexibility in the 1987 rate proceeding to allow its operators to set prices to maximize revenues depending on market conditions. Because BPA sometimes must set its rates to California below its "fully allocated cost" of nonfirm energy target, it tries to make up for these "under-recoveries" through other over-recoveries when market conditions allow it to set a price higher than its "cost." We therefore anticipate that BPA would have some concern about allowing competition with its sales when it sets prices above "cost," but we suggest, below, a way to mitigate that concern. We also note that allowing competition when BPA sets the rate above its "cost" would not always make BPA sales above "cost" impossible since under Condition 3, buyers are generally competing for available energy.

[19] E.g., Statement of James A. Jura [to the House Subcommittee on Water and Power Resources], H.R. Serial No. 100-2, at 391; 1987 rate case ROD, WP-87-A-02, at 154-55.

[20] The Competition Above Cost proposal is presented in Attachment 1 to these comments.

requires that BPA (1) fairly define and justify what its revenue needs from California really are, and then (2) find a way to meet those needs that involves the least restriction of competition with BPA sales possible. BPA has not yet completed either essential step toward fashioning an LTIAP that fulfills its duty as a federal agency to consider federal antitrust policies.

B. Formula Allocation to Nonfederal Sellers of Spot Market Energy

If BPA's analytic rationale for restricting competition with its own sales is deficient, its justification for creating a cartel among nonfederal sellers of surplus energy to California is virtually nonexistent. As Judge Norris observed in his dissent in the CEC case:

> I can see no statutory authority under which the BPA is authorized to discriminate so clearly in favor of northwest utilities and against southwest utilities and energy users. Indeed, the relevant statutory language appears to point the other way. The anticompetitive, pro-northwest utility slant of the pro rata intertie access plan seems plainly incompatible with the statutory language requiring that the BPA be 'fair and non-discriminatory' in its treatment of all utilities, 16 U.S.C. § 838d, as well as the clear understanding . . . that the purpose of the intertie was to benefit both the northwest and southwest [citation].

831 F.2d 1479. Indeed, even the majority in the CEC case seemed reluctant to affirm the part of the policy that shields nonfederal sellers from competition. The court based its finding that the cartel provided in the NTIAP was not arbitrary, capricious, or an abuse of discretion, not on the merits of the policy, but rather on the lack of anything in the NTIAP record

clearly delineating an alternative for BPA's consideration that would have permitted BPA to protect itself from competition while making the remaining part of the Intertie available on a competitive basis.[21] 831 F.2d at 1475-77.

In the Revised Draft LTIAP, BPA has made a weak effort to link the creation of a cartel for nonfederal sellers to its own revenue stream through the potential indirect effects of the residential exchange subsidy and of changes in demand for priority firm energy; BPA has also attempted to justify the cartel as a counterweight to allegedly anticompetitive behavior on the southern part of the Intertie. LTIAP Explanation at 9-10.

When we combine these rationales with past justifications for the NTIAP, we find that the reasons BPA has placed on the record for restricting competition among nonfederal sellers (in order to increase their revenues from California) are (1) the allegations that California utilities' "monopsony" power unfairly injures the Northwest sellers, (2) the assertion that the cartel is necessary to provide an equal sharing of benefits from Intertie transactions between the regions, (3) the contention that the cartel is not really very anticompetitive because sellers must still compete with the costs of California resources and purchases from utilities outside the Northwest, (4) the suggestion that the cartel reduces BPA's residential exchange

[21] We discuss such alternatives below.

subsidy costs, and (5) the suggestion that BPA's revenues could decrease if competition caused some of its customers to displace some priority firm energy purchases from BPA with energy they were unable to market to California as a result of competitive pricing.[22] See September, 1984 ROD at 1, 38-41; May, 1985 ROD at 7-8, 18; Transcript, p. 323, l. 21 to p. 325, l. 14; CEC, 831 F.2d at 1476. We will address each of these arguments in turn and discuss, as we did in section I.A., above, an alternative allocation scheme that would better harmonize antitrust principles with BPA's legitimate statutory objectives.

1. Alleged "Monopsony" Power of California Buyers

Since the inception of the interim Access Policy in 1984, BPA has made the ownership pattern and operating practices at the southern end of the Intertie a principal basis for justifying its division of the northern end of the Intertie into fixed shares. September, 1984 ROD at 38-41. BPA has asserted that since the southern part of the Intertie is owned in fixed shares by several utilities who, BPA alleges, do not share their transmission capacity freely with other potential buyers of Pacific Northwest surplus energy (many of whom do not own Intertie capacity) there is a restriction on competition among the buyers that is fairly compensated for by eliminating competition among the sellers. Id. This assertion has many flaws. In the sections which

[22] BPA has also cited "planning certainty" and "maximizing Intertie usage" (see Transcript, p. 324, l. 19-20) but has never explained what these mean or how the LTIAP advances them.

follow, we will examine in detail the factual and legal problems with this principal justification for the pro rata allocation scheme and will then examine the problems with BPA's proposed solution, Section 5(d) of the LTIAP.

a. Does the California Ownership Pattern Harm the Pacific Northwest?

BPA has never presented any real evidence that the ownership pattern or operational practices in California have a significant economic effect on the Northwest, particularly given that BPA has already shielded the Northwest from competition by providing a BPA-established floor rate under Condition 1 through the Exportable Energy Agreement. We have told BPA that it needs to document its conclusion that California has too much market power, but it appears that BPA has never moved beyond theoretical discussion of this issue. In our Freedom of Information Act request of January 25, 1988, we emphasized this critical point, asking BPA:

> 6. Throughout the record of both Near Term policies and the Long Term policy to date, BPA has relied heavily on alleged anticompetitive conduct by the owners of the southern portion of the Intertie to justify a pro rata allocation scheme which goes beyond protection of BPA revenues and protects Pacific Northwest nonfederal sellers of surplus energy from competition among themselves. In Section 5(d) of the Revised Draft LTIAP BPA offers to scrap the pro rata allocation scheme after the Third AC line goes into commercial operation, unless the Administrator finds that there are still competitive problems at the southern end of the Intertie.
>
> (a) What, precisely, is the alleged anticompetitive conduct that BPA is trying to affect through this policy?

> (b) Please provide all studies in which BPA has quantified or has attempted to quantify the economic effect on (i) BPA and (ii) nonfederal sellers of the alleged anticompetitive conduct at the southern end of the Intertie? If in answer to part (a) of this question, you have identified more than one specific practice or factor that together result in the alleged competitive problems at the southern end of the Intertie, please provide all studies related to each such practice or factor.

We received no response to this request, thus indicating to us that BPA has not even identified specific California practices that are harmful, let alone performed any quantitative analysis that would show whether the alleged anticompetitive practices have any significant economic effect on the Northwest at all.[23] Indeed, in the public comment sessions, BPA staff said that BPA had no intention to perform any such analysis. Transcript, p. 181, l. 10-21. Without such analysis, however, the justification cannot stand.

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[23] The extent of the effect, if any, would depend a great deal on (1) how often the Northwest is in Condition 1 and how Condition 1 is treated, (2) how often there is a natural sellers' market under Condition 3, and (3) how much of the California market is actually inaccessible under current ownership conditions. (Currently, less than 5 percent of the Southern California market, and around 10 percent of the Northern California market, lacks access to the Intertie, based on the amount of peak load each utility has.) If BPA is assumed to continue operation of Condition 1 as it was under the Exportable Energy Agreement, if Condition 3 occurs a large percentage of the time (as it surely will when the Intertie is expanded) and if a relatively small number of megawatts of demand is inaccessible to the Northwest in relation to the total California demand for surplus energy, then it is doubtful that the theoretical market power wielded by owners of fixed shares actually results in an economic effect that justifies BPA's own violations of antitrust principles. This is particularly true when BPA is not protecting its own sales from competition, but rather the sales of others who have no investment in the Intertie.

b. Is There Anything Improper in the California Pattern of Intertie Ownership?

A second problem with BPA's assertion that the Northwest cartel is justified due to lack of competition in California is that it is based on the assumption that there is something inherently wrong with the pattern of ownership and operation of the Intertie in California--an assumption that BPA cannot justify. Not only has no court or administrative tribunal ever determined that the ownership pattern and operating practices of the California owners are improper[24], but they were fully understood by BPA and accepted by Congress when the Intertie was commenced in 1964. Certainly, the California utilities who invested large sums of their ratepayers' funds in constructing the southern two-thirds of the Intertie were not informed at that time that BPA expected that they would operate their lines as common carriers so that any potential buyer, even a non-owner who had invested nothing, could use the facilities and push the investor-owners' own transactions off the Intertie.

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[24] One of the major Northwest utilities has commented in this proceeding that there is nothing wrong with owners maintaining control over their shares: "If the use of the non-federal portion of the Intertie is subject to rules requiring competitive bidding or open access, so also would the portions of the Intertie owned by PP&L and PGE be subject to the same rules. . . . [However,] [a]t present, federal law, as administered by FERC does not require open access to owned or controlled transmission facilities upon a competitive bidding scheme nor is access mandated in the absence of an essential facility finding." Washington Water Power Company, Comment No. 3-122.

In fact, according to sworn testimony of Charles Luce, BPA Administrator from 1961 to 1966, BPA's view at the time was quite the opposite: the idea of limiting California participants in the Intertie to large generating utilities came originally from BPA itself. 26 FERC ¶ 63,048, p. 65,199-65,201. Mr. Luce explained, during the "Quad-7" proceeding, that part of BPA's concern was to prevent small non-generating public utilities in California from becoming dependent on BPA power, thus raising a potential political conflict between the long-standing tradition of public preference and the newer Northwest preference. Id. at 65,200. Yet these small (and at that time non-generating) public utilities are the very potential buyers that BPA now complains it cannot reach because the utilities in California who did invest their ratepayers funds in the Intertie in 1964 do not wish to turn their shares over to the non-owners. September, 1984 ROD at 40.

In essence, BPA wishes to rewrite history. Having advocated the current ownership pattern for its own purposes, BPA now seeks to deprive the California utilities who invested in the Intertie of the fruits of their investment. BPA seems to insist that they must operate their transmission lines in a way that permits Northwest sellers to receive the highest possible price for their surplus energy, and if they do not, then the cartel BPA has created through the intertie access policy will be continued indefinitely. Thus the Northwest utilities, who did not have to

invest a dime in construction of these expensive facilities[25], are granted the benefits of a cartel based on BPA's desire to regulate the operation of facilities outside the Northwest.

California parties, of course, have worked hard among themselves to resolve long-standing differences between owners and non-owners of the Intertie, and have reached agreement on principles that should permit a third AC Intertie to become operational in the early 1990s.[26] This development can only improve the natural balance of market power from the perspective of Pacific Northwest sellers, not only because they will have access to more buyers, but more importantly because Intertie capacity will be a constraint less of the time, causing them to have to compete for space on the Intertie less frequently. (In other words, the natural sellers' market of Condition 3 will occur more often.) These facts seem to be clear to BPA, yet BPA

[25] BPA's statement that "Certainly no California utility has an intertie policy that provides anything near the access given by BPA" (LTIAP Explanation at 9) strongly suggests that BPA simply does not recognize any difference between federal investment and utility investment in terms of the duty to serve others.

[26] Even when the new Intertie is complete, there will be fixed ownership shares in California because in California the money to build the Intertie comes not from the federal treasury, but rather from the utilities themselves. It seems unlikely that the new California Intertie participants will be any more anxious to permit their shares to be used by others who may outbid them for available Northwest energy than the current owners are. BPA must therefore make it very clear, this time in advance of the investment, whether it will expect these new owners to act as common carriers or whether their investment and ownership will be respected.

persists in its argument that the California "monopsony" justifies its Northwest cartel.

c. Does Legal Precedent Support BPA's Notion That It May Fight Alleged Anticompetitive Practices with More Anticompetitive Practices?

A third problem with BPA's argument that the pro rata allocation scheme is justified to counterbalance the effects of alleged monopsony behavior on the California portion of the Intertie is that there is no legal basis for it. What BPA is saying is that its own anticompetitive activity--"a scheme which if implemented by a private party would plainly violate the antitrust laws" (831 F.2d at 1479 (Norris, J., dissenting))[27]--

[27] There is no question but that the pro rata allocation scheme would be illegal. The courts analyze most alleged violations of Section 1 of the Sherman Act (15 U.S.C. § 1, prohibiting agreements in restraint of trade) with a "rule of reason" under which they "decide whether under all the circumstances of the case the restrictive practice imposes an unreasonable restraint on competition." Arizona v. Maricopa County Medical Society, 457 U.S. 332, 343, 102 S.Ct. 2466, 2472 (1982) (emphasis added). However, some types of activities are so obviously anticompetitive and harmful that they have been declared to be per se illegal; no balancing of all the facts and circumstances is required. Id. Allocating a market horizontally -- which is exactly what the Revised Draft LTIAP does -- is per se illegal. See Copperweld Corp. v. Independence Tube Corp., 467 U.S. 752, 768, 104 S.Ct. 2731, 2740 (1984).

The fact that the pro rata allocation scheme would be per se illegal if privately undertaken means that BPA should have an especially heavy burden of justifying it. When a particular type of activity has been held to be per se illegal, the courts will not consider any justification advanced in support of the activity. Maricopa County, 457 U.S. at 351, 102 S.Ct. at 2477 ("[t]he anticompetitive potential . . . justifies their facial invalidation even if procompetitive justifications are offered . . .); see also Charley's Taxi Radio Dispatch v. SIDA of Hawaii, 810 F.2d 869, 877 n.8 (9th Cir. 1987)("intentional anticompetitive behavior . . . cannot be justified on the basis

is justified because it retaliates against anticompetitive behavior by other parties. This argument is consistently rejected in antitrust law.

In cases involving private parties, the U.S. Supreme Court does not permit one party to justify his or her illegal anticompetitive activity on the ground that another party has also acted illegally, holding that a plaintiff in an antitrust suit cannot be barred from recovery by proof that he had engaged in an antitrust violation of his or her own. Perma Life Mufflers, Inc. v. International Parts Corp. (1968) 392 U.S. 134, 138, 88 S.Ct. 1981, 1984 (1968); Kiefer-Stewart Co. v. Joseph E. Seagram & Sons (1951) 340 U.S. 211, 214, 71 S.Ct. 259, 261; see also Memorex v. IBM (9th Cir. 1979) 555 F.2d 1379 (following Perma Life and Kiefer-Stewart). In Perma Life, the Court held that plaintiff retailers' and franchisees' acquiescence in (and alleged support of) defendant wholesaler's and franchiser's anticompetitive activities was no bar to recovery. 392 U.S. at 138, 88 S.Ct. at 1984. In Kiefer-Stewart, the Court held that a liquor wholesaler's participation with other wholesalers in a price-fixing scheme was not a defense in the wholesalers' suit

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of a benign ultimate objective . . .."). Thus, if BPA were a private party, none of its justifications for the pro rata allocation scheme would be legally relevant at all. In these circumstances, those justifications must be particularly well-founded if they are to override the harmful anticompetitive effects of the allocation scheme.

against a liquor manufacturers' price-fixing scheme. 340 U.S. at 214, 71 S.Ct. at 261.[28]

In Perma Life, several justices questioned whether a plaintiff's own anticompetitive conduct should never be a bar to his recovery in an antitrust suit. However, all of these justices were concerned about situations in which a plaintiff could be shown to have entered into anticompetitive behavior in concert with a defendant. See concurring opinion of White, J., 392 U.S. at 142 - 147, 88 S.Ct. at 1986 - 1988; concurring opinion of Fortas, J., 392 U.S. at 147, 88 S.Ct. at 1989; concurring opinion of Marshall, J., 392 U.S. at 148 - 153, 88 S.Ct. at 1989 - 1990; concurring and dissenting opinion of Harlan and Stewart, JJ., 392 U.S. at 153 - 156, 88 S.Ct. at 1992 - 1993. None suggested that a retaliatory motive could ever justify anticompetitive behavior. Indeed, Justice Harlan, who most

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[28] See also U.S. v. Crescent Amusement Co., 323 U.S. 173, 65 S.Ct. 254 (1944). In that case movie theater owners appealed an antitrust decree forbidding them from engaging in anticompetitive practices in their dealings with movie distributors. The owners argued, inter alia, that the provisions in the decree "will aggrandize the distributors at the expense of the exhibitors, [and] that if such measures are taken they should be taken against the distributors, [and] that they deprive the exhibitors of group purchasing power . . . " 323 U.S. at 187, 65 S.Ct. at 261. The court rejected this argument, stating that

> the fact that there may be somewhere in the background a greater conspiracy [on the part of sellers] from which flow consequences more serious than we have here is no warrant for a refusal to deal with the less serious one which is before us.

Id. at 188, 65 S.Ct. at 262.

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Id. at 188, 65 S.Ct. at 262.

strongly questioned the reasoning of the Court's opinion, clearly rejected that idea:

> [In] Kiefer-Stewart Co. v. Joseph E. Seagram & Sons . . . [i]t was there alleged in defense to a treble-damage action that the defendants' illegal actions were taken in reprisal against altogether illegal actions by the plaintiff. Here again, I accept the decision that this is no defense. Our law frowns on vigilante justice. Since the plaintiff is in part enforcing the public interest against the defendants' violations, I would permit him to do so, and leave punishment for any independent violation by him to proper means of enforcement.

392 U.S. at 154 - 155, 88 S.Ct. at 1992 (emphasis added).

More recently, the Ninth Circuit has held that the plaintiff's participation in illegal anticompetitive behavior may constitute a defense in his antitrust action seeking relief against a defendant's activities, but only if the plaintiff participated in concert with the defendant, if the plaintiff participated in the activities complained of, if the plaintiff had complete involvement in the activities, and if "the [defendant's] illegal conspiracy would not have been formed but for [plaintiff's] participation." THI-Hawaii v. First Commerce Financial Corp., 627 F.2d 991 (9th Cir. 1980). Obviously, these circumstances do not exist here. BPA is trying to justify its scheme regarding its portion of the Intertie because of the existence of completely different activities on the southern portion of the Intertie.

BPA's use of alleged monopsony power in California as a justification for the pro rata allocation scheme is untenable not only because it would not be heard in court if BPA were a private party, as we have just discussed, but also because the courts would not entertain this argument even from a federal agency that is exempt from direct application of the antitrust laws. As the Gulf States line of cases makes clear, a federal agency must balance the justifications for its anticompetitive behavior against the harm caused by that behavior; most important, those justifications must be found within the statutory policies that the agency is charged with carrying out. See Gulf States Utilities Co. v. Federal Power Comm'n, 411 U.S. at 759, 93 S.Ct. at 1878 (the agency must "consider matters relating both to the broad purposes of the Act [that it implements] and the fundamental national economic policy expressed in the antitrust laws"); Northern Natural Gas Company v. Federal Power Comm'n, 399 F.2d at 977 (agency must weigh "economic, social, and political factors encompassed within the 'public interest' concept [of its organic statute]"); City of Huntingburg v. Federal Power Comm'n, 498 F.2d at 784 (inconsistencies with federal antitrust policy may not "outweigh other factors in the [agency's] overall public interest calculation"). Since nothing in the statutes applicable to BPA's use and allocation of the Intertie directs BPA to combat alleged anticompetitive activity in California on behalf of Pacific Northwest utilities, BPA's principal justification for its Northwest cartel cannot stand.

Judge Norris eloquently summarized the problem with BPA's main rationale for the cartel when he said that:

> The BPA's statutory mission . . . does not extend to acting as the guardian angel for Northwest utilities in their market relationship with Southwest utilities. If Northwest energy companies believe that the Southwest utilities are exercising some sort of unfair monopsony power, let them sue under the applicable antitrust laws. It is not the mission of the BPA to fight this battle for the Northwest utilities through the promulgation of a regionally biased access policy.

CEC, 831 F.2d at 1479. BPA's response to this point is that judicial remedies take too long.[29] LTIAP Explanation at 9. Yet its statement that "BPA cannot wait 14 years for a cure to problems in its critical California market when BPA's average losses run to $100 million per year" (id.) is entirely off base.[30] Judge Norris was clearly referring to the part of the policy that creates the cartel for non-federal sellers; he was apparently assuming that BPA could protect its own sales from competition, and his question therefore goes only to the part of the policy that eliminates competition among other sellers. BPA has simply dodged the issue he raised: Does BPA have any statutory authority to create a cartel in order to "protect" non-

[29] Indeed, in court the parties suffer long delays caused by such things as the presentation of evidence, cross-examination of witnesses, and objections to the introduction of evidence that is not well founded. By adopting the LTIAP, BPA can avoid the delays caused by these due process safeguards, but at what cost to fairness?

[30] Moreover, no one should be misled by the implication that California has been responsible for even one penny of these "losses," or that a judicial remedy, if appropriate, would take 14 years to obtain.

federal sellers from alleged monopsony power in California? As we have seen, the answer is no.

d. Section 5(d) is an Inadequate Solution to the Anticompetitive Aspects of the LTIAP

Section 5(d) of the revised draft LTIAP is apparently BPA's answer to our complaints that the policy improperly protects non-federal sellers from competition. Although it represents one very small step in the right direction, it is an inadequate response which is particularly troubling because it is so vague.

Section 5(d) starts off by promising to eliminate the worst aspects of the cartel for non-federal sellers under Conditions 2 and 3 when the third AC interconnection is operational. It indicates that in place of the current formula allocation, BPA would allocate the Intertie first to BPA and then "to the extent practicable" as a block to others, thus resulting in some level of competition among non-federal sellers, at least under Condition 2, and under Condition 3 when the Intertie is full because of Canadian participation.[31] However, restrictions on non-federal competition under Condition 1 would continue, as would restriction on competition with BPA sales under all

[31] Under Condition 3 when the Intertie is not full, even with fixed shares of the Intertie in California, the Northwest enjoys a natural sellers' market since each California holder of a share of the Intertie will bid up the price of available Northwest energy when there is not enough energy to fill the Intertie.

Conditions and discrimination against Canada, particularly in Conditions 1 and 2.[32] Nevertheless, the allocation system proposed in section 5(d) would be an improvement over the current method of allocation.

Section 5(d) is then made meaningless, however, by the statement that even after hundreds of millions of California dollars have been spent to build the new Intertie, the Administrator might find that competition in the California market is still "impaired," in which case he would not change the allocation scheme as promised. How can anyone know what would be necessary to avoid having the Administrator determine that "Intertie access continues to be impaired for California utilities presently lacking ownership in the southern portion of the Intertie"? Does this mean if any utility, no matter how small, does not participate in the project and therefore does not gain access, the Administrator can find that access is "impaired"? Does it mean that even if utilities do have access, if they want to buy more than their share of the Intertie will allow, their access is "impaired"? BPA does not tell us. How will BPA treat non-owners who have contractual rights to the

[32] BPA has made no effort to explain why these restrictions should not also be removed upon completion of the new Intertie. Most especially, it would seem unnecessary to continue to discriminate against Canada at that point.

federal sales) competitive some of the time[35] in exchange for making the entire California market perfectly competitive all of the time. Considering the preponderance of California dollars that have been, and are expected to be, invested in the Intertie, the proposal is highly unreasonable; BPA must know that it cannot be accepted in California. Thus section 5(d), in its current form, appears to be little more than window dressing which attempts to shore up a legally questionable part of the policy.

2. Equal Sharing of Benefits

In 1984, BPA contended that the pro rata allocation scheme was necessary because during the heavy water years of 1982 and 1983, California was getting a larger percentage of the benefits of Intertie transactions than the Pacific Northwest. September, 1984 ROD at 39-41.[36] This assertion was relied on, in part, for the CBC court's finding that the NTIAP was not an abuse of discretion. 831 F.2d at 1476. Although BPA has not repeated this assertion in its recently released revised draft LTIAP, BPA will apparently again make this contention in defense of the LTIAP. See Transcript, p. 324, l. 12-16.

[35] BPA's considerable discretion to deem Condition 1 in existence because it finds a "likelihood" of spill (see Transcript, p. 212, l. 11 to p. 214, l. 12) further reduces these limited benefits.

[36] Given the much larger California investment in the Intertie and the fact that nearly three times as many people in California must share the California share of those benefits as in the Northwest, it has always been entirely unclear what was inequitable about the fact that California got a larger share of the benefits in 1982 and 1983.

In fact, however, the pro rata allocation scheme, far from providing an equal sharing of benefits, skews the vast majority of the benefits to the Pacific Northwest. Before the policy was adopted, natural market forces worked to provide rough equilibrium over time. See Comments of LADWP, Near Term Record at 180-91. During most years, there were substantial periods when there was not enough surplus energy to fill the Intertie (now called "Condition 3"). During such periods, the Northwest enjoyed a natural "sellers' market" because the scarcity of supply forced California buyers to compete for available energy. When this happened, Northwest utilities could (and still can) obtain energy prices approaching the cost of California alternative sources of generation. At other times of most years, there was more than enough surplus energy to fill the Intertie (now called "Conditions 1 and 2"). During these periods, California enjoyed a natural "buyers' market" that forced prices, through competition among Northwest sellers, to levels closer to the sellers' operating costs. The effect of the pro rata allocation scheme has been to eliminate competition among sellers, thereby creating a perpetual sellers' market. The result is not to equalize benefits, but rather to maximize the benefits to Northwest sellers and to minimize the benefits for Southwest buyers.[37]

[37] If BPA were serious about trying to share the benefits equally between the regions, it could adopt an LTIAP that would alternate periodically between competition and pro rata allocation in such a way that the benefits, as measured in an objective way, are shared equally. Of course, this alternative

BPA has presented no evidence in this record that would allow the reasoned conclusion that the benefits are actually being shared equally under the pro rata allocation scheme.[38] In contrast, PGandE has presented evidence in its comments that clearly confirms that under the NTIAP, the majority of the benefits of Intertie transactions, when measured by the traditional method of comparing incremental and decremental costs, have flowed to the Northwest. Similarly, evidence presented to Congress demonstrates that California's share of the benefits of purchases from BPA declined precipituosly after the Near Term policy was implemented, to less than 20 percent in the period from July 1985 through December 1986. H.R. Serial No. 100-2, at p. 627.

3. Alleged Continuing Competitive Factors

BPA has often contended that the elimination of competition among the non-federal Pacific Northwest sellers was not so anticompetitive as California has claimed because those sellers still had to compete against the cost of California resources and

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still requires BPA to act inconsistently with the antitrust laws, and BPA has no statutory authority to regulate the benefits that flow to each region. Nonetheless, an alternative that would allow competition on the Intertie at regular intervals would at least be more competitive than the policy as proposed.

[38] Once again, this lack of evidence occurs despite our specific invitation to BPA to provide some. In our FOIA request, we asked BPA to provide information on the differences between (1) prices charged by BPA and non-federal sellers and (2) sellers' and buyers' incremental and decremental costs. No response was forthcoming.

purchases from other out of state sources. CEC, 831 F.2d at 1476; September, 1984 ROD at 36-44. This argument is irrelevant: competition from resources outside the Northwest is not at all the same as competition among Northwest sellers. BPA's contention thus amounts to nothing more than the obvious truism that no spot market energy seller can ever sell for more than his buyer's decremental cost. However, if the pro rata allocation scheme allows the seller consistently to receive a price of 75 to 90 percent of that decremental cost, while without the shield from competition by other Northwest sellers, he would receive from 10 to 90 percent of decremental cost, it is hard for BPA to say with a straight face that the pro rata allocation scheme still permits fair "competition" in the market. BPA's argument is a thinly-disguised admission that it has taken for the Northwest all that it possibly can. It is akin to hearing a bank robber try to defend his theft by arguing that he left a lot of other money still in the bank because he couldn't physically carry it all.

Another argument BPA has made is that comparison of the average prices paid by California utilities to non-federal sellers before and after the policy shows they were not significantly higher after the policy. May, 1985 ROD at 1, 7-8. All BPA compared, however, were the last four months of 1983 and the last four months of 1984. Since the last four months of most years tend to be low water times when Condition 3 operating

conditions, which are unaffected by the pro rata allocation scheme, often prevail, this comparison was completely irrelevant and misleading.

Of course, in May 1985, BPA had no data for a full year of operation under the NTIAP. Now that there have been several years of operating experience, we assumed that a more complete analysis of the effect of the NTIAP on non-federal seller prices would be possible. When asked, however, whether BPA had updated its four month price comparison to look at the effect of the pro rata allocation scheme for a more representative period of time (e.g. at least one year of pre-IAP and a whole year of post-IAP), BPA indicated it had not done so. Transcript, p. 852, l. 15 to p. 853, l. 2; see also CEC FOIA Request, question 5.

Moreover, a comparison of absolute prices is not as relevant as the comparison of the prices as a percentage of decremental costs experienced by the buyer. As the data from PGandE shows, the pro rata allocation scheme has had a very substantial impact on this latter factor, and if decremental costs rise in the future as a result of oil price increases, the pro rata allocation scheme will allow Northwest energy prices to rise along with them.

BPA's final argument concerning continuing competition under the NTIAP was the contention that Pacific Northwest sellers still

had to compete with each other because Intertie capacity was often greater than actual Intertie usage May, 1985 ROD at 8. The ROD explained that "This assures that PNW sellers will have to compete with one another to ensure that they will have sufficient sales even in a market when PNW allocations exceed PSW demand." Id.

During this proceeding, we learned what BPA's "assurance" means. Appendix A of the LTIAP Explanation shows that if Intertie allocations exceed the California market, competition between non-federal sellers and BPA would result in a decrease in the price the non-federal sellers charge to California and that this competition results in a reduction of BPA's share of the Intertie. We also learned what BPA is proposing to do in the LTIAP to exterminate this last vestige of competition: BPA now proposes to allocate to the market (or to do the equivalent through a "truing up" mechanism[39]). Thus, although the NTIAP and the 1986 draft LTIAP allowed California to save a half a mill when buying from non-federal sellers, BPA has now closed this

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39 The "truing up" proposal, affectionately referred to by Jay Waldron as the "rolling thunder" proposal, is described at Transcript, p. 804 (Items 3-4 under Condition 1). The true significance of this proposal, from our perspective, is that it shows that BPA operators are comfortable with their ability to adjust the allocation of Intertie capacity to BPA upward from pro rata in order to make up for lost sales or lost revenues. We therefore feel confident that BPA could implement the alternatives we propose both for allocation to itself (the Competition Above Cost proposal described above) and also for allocation to others (the Pro Rata Plus Mitigation for Competition proposal described below).

"loophole". We assume BPA will not reraise this factor in arguing that competition continues under the LTIAP.

4. Pro Rata Allocation and the Residential Exchange Subsidy

Given both the LADWP and CEC courts' strong emphasis on BPA's authority to take action to protect its own revenues, and given the less-than-ringing endorsement by the CEC court for BPA's elimination of competition among non-federal sellers, it is not surprising that BPA has now developed arguments that try to show that pro rata allocations to non-federal sellers affect federal revenues. The first argument BPA makes in this category is that competition among nonfederal sellers who receive residential exchange subsidy payments from BPA will cause those sellers to receive less revenue, which in turn will result in increases in the subsidies they receive from BPA. LTIAP Explanation at 9.

What is initially striking about this argument is that it (along with BPA's argument on partial requirements preference customers, which we discuss below) removes any remaining pretense about the effect of the LTIAP on the prices non-federal sellers will get for their spot market energy: by eliminating market competition, it keeps those prices up. If it did not, then there would be no potential effect on federal revenues through the residential exchange subsidy.

Another important aspect of the residential exchange argument is that BPA has, in contrast to other justifications for the LTIAP, provided a quantitative analysis that attempts to show its revenue effects on BPA. See Letter from John A. Cameron, Jr. to Interested Parties (February 11, 1988) (hereafter February 11 letter). The results of this analysis are very instructive. They show that competition among non-federal residential exchangers will cause BPA's subsidy payments to increase by at most $6.4 million per year.[40] Moreover, this analysis is, as BPA forthrightly labels it, a "worst case" scenario. BPA assumes that without cartel pricing, the recipients of residential exchange subsidies will make no nonfirm sales over the Intertie. BPA also includes in the $6.4 million figure the effects of assumed reduced prices that PGE and PP&L will receive for spot market energy sold over their shares of the Intertie, even though the LTIAP has no direct effect on those fixed shares of Intertie capacity.[41]

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[40] It is unclear whether this number is in real (versus nominal) terms and whether it has been discounted to a present value to account for the time value of money. If the $6.4 million figure is nominal or undiscounted, or both, it is too high.

[41] On February 18, 1988 we received (from PGandE) some backup documentation from BPA (dated February 16) for the residential exchange and priority firm studies. We have not had an adequate opportunity to review the documentation, but we do note that it shows that over 90 percent of BPA's alleged revenue losses due to residential exchange effects would be caused by lower PGE and PP&L prices.

In any event, whether the correct number is $6.4 million or something smaller, the effect on BPA revenues must be regarded as minimal. (BPA has stated that a revenue loss of $14 million, resulting from Assured Delivery, is "deleterious, but tolerable." LTIAP Explanation at 2.) In addition, BPA can easily make up for such a revenue loss. If BPA makes spot market sales of between $200 and $300 million per year to California[42] by receiving a pro rata allocation that averages 60 percent of the Intertie,[43] it could mitigate the impact on its exchange subsidy payments resulting from competition among nonfederal sellers by taking a very small amount more than pro rata--around 61 percent.[44]

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[42] In its 1987 rate case, BPA estimated revenues of $523 million from nonfirm sales over 2 years, most of which are from California. Wholesale Power Rate Development Study (WPRDS), WP-87-E-BPA-06, Table 3, line 5 and Table 10, lines 28 - 31. In its response to question 1(a) of our FOIA Request, BPA stated that its short-term sales to California (nonfirm plus surplus firm of less than one year) are expected to result in revenues of $274.41 million in FY 1988 and $290.34 million in FY 1989. We request that BPA make these documents part of the LTIAP record.

[43] This is the assumption BPA used in its analysis of the revenue impact of permitting assured delivery to nonfederal sellers for long-term firm transactions. BPA, Assured Delivery Contracts--Assumptions and Methodology (01/04/88) at 9.

[44] We arrived at this estimate of 61 percent as follows: Assume BPA receives $282.38 million (the average of $274.41 million and $290.34 million from BPA's FOIA response) annually from California spot market sales and receives an average allocation of 60 percent of the Intertie. Next assume that BPA needs to obtain an additional $6.4 million to mitigate its increased residential exchange subsidy payments, for a total revenue need from California of $288.78 million annually ($282.38 million plus $6.4 million). If revenues are proportional to Intertie access, BPA will obtain that latter amount of revenue by taking on average 61 percent of the Intertie.

In other words, while most of the attention in the past has been focussed on the extreme alternative of a "BPA first" policy that gives no one else access until BPA has sold all of its energy, we want to suggest, at this point, that BPA must also consider the alternative of simply mitigating the estimated revenue impacts of allowing competition among non-federal sellers by taking a small amount more than a pro rata share for itself and making the rest available to others as a block. Such an alternative would both protect BPA's interest in being able to repay the treasury to the same extent as the proposed pro rata allocation scheme, while at the same time making a substantial improvement in harmonizing the LTIAP with the policies of the antitrust laws. We call this alternative the "Pro Rata Plus Mitigation for Competition" proposal, which is presented in Attachment 1.

5. Displacement of Priority Firm Purchases

This second "revenue justification" for pro rata allocation among non-federal sellers of surplus energy is even more speculative than the residential exchange cost justification. In this case, BPA argues that price competition among non-federal sellers could cause some of its partial requirements preference customers to fail to market their nonfirm energy to California, and they would use that energy themselves to displace purchases from BPA at the priority firm rate. LTIAP Explanation at 9. BPA admits that it has instituted an availability charge in order to

deal with the problem of loss of priority firm sales from partial requirements customers. That should be the end of the matter, but BPA says this charge has been "controversial" and has spawned litigation (which has thus far upheld the validity of this remedy). Id. We would expect, of course, that opening the non-federal portion of the Intertie to competition would also be "controversial" in the Pacific Northwest, but since BPA has a duty to harmonize antitrust principles with the statutory policy requiring it to collect enough revenue to repay the treasury where that is possible, we believe that "controversial" or not, that is what BPA must do.

Since California decremental costs have been relatively low in recent months, we assume that much of the priority firm displacement of this type that is theoretically possible is already happening, today, even with the existence of the anticompetitive NTIAP, since priority firm preference customers would have an incentive to sell their own energy to California only if the spot market price they could get were higher than the priority firm energy rate. Therefore, rather than being a factor that would cause BPA a revenue losses if instituted today, it would seem that BPA is really saying that it wants to avoid competition because possible future higher prices to California (as California's decremental costs rise) may solve BPA's current displacement problem. If this did happen, however, it would appear that BPA would simply be assisting these utilities in

brokering BPA's priority firm power to California for a higher price. This is not a proper function of the LTIAP.

The CEC contends that BPA's problems relating to its relationship with its partial requirements priority firm customers is something that should be resolved within the rate schedules that relate to priority firm service. If the availability charge is an incomplete remedy to the problem of displacement (which we do not concede), the solution should be to increase that charge to reflect the true cost of providing stand-by service to these customers. The solution should not be to create cartel pricing for these utilities' sales to California in the hope that this may someday solve the displacement problem by allowing surplus priority firm energy to be brokered to California.

If BPA insists on using the Access Policy as a solution to its displacement problems, we note that BPA could mitigate the impact of displacement in the same way that we suggest for mitigating the impact of possible increased residential exchange costs--by taking a slightly larger than pro rata share of the California market for its own sales. BPA has recently provided an estimate of the revenue effects of displacement by partial requirements preference customers. Like BPA's residential exchange study, it is very conservative--it assumes that partial requirements preference customers make no nonfirm sales at all to

California, and it appears to ignore the likelihood that BPA would be able to use at least some of the displaced energy to make its own nonfirm sales to California. The maximum annual loss shown by BPA is $9.7 million. February 11 letter.

We demonstrated above that BPA could easily mitigate an annual revenue loss of $6.4 million by slightly increasing its Intertie allocation from 60 to 61 percent. The "maximum, worst case" combined impact of both the residential exchange effect and the priority firm displacement effect would not require BPA to increase its share above 63 percent, thus still leaving substantial Intertie capacity for others to share in a competitive market. The bottom line is that neither of BPA's "revenue justifications" provide an adequate basis for failing to permit competition among non-federal sellers (and thus better harmonizing the policy with the antitrust laws) because those revenues can be regained in a way that would not prevent competition among non-federal sellers but rather would simply rely on the statutory priority Congress provided for BPA to use its own transmission lines for its own sales first.

II

ASSURED DELIVERY

The CEC applauds BPA's decision to expand its provision of assured delivery service, by making provision for seasonal exchanges, though we believe this falls short of the needs of

Northwest and California utilities and even more significantly, short of BPA's statutory obligations. Indeed, despite the recent improvements, the Policy's provisions on Assured Delivery suffer from the same basic problems that we discussed in our comments on the 1986 draft LTIAP (which would not have allowed exchanges). Those comments outlined the statutory and judicial principles applicable to Assured Delivery, and bear repeating here.

BPA is authorized by the 1964 and 1974 statutes, 16 U.S.C. §§ 837 and 838,[45] to determine what portion of the Intertie is necessary to transmit federal energy, and, if the Ninth Circuit decision in the LADWP case is correct, to reserve that portion of

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[45] The 1964 Regional Preference Act, 16 U.S.C. § 837 et seq., provides in pertinent part:

> Any capacity in Federal transmission lines connecting, either by themselves or with non-federal lines, a generating plant in the Pacific Northwest or Canada with the other area or with any other area outside the Pacific Northwest, which is not required for the transmission of Federal energy or [Canadian treaty energy], shall be made available as a carrier for the transmission of other electric energy between such areas.

16 U.S.C. § 837e (emphasis added). The 1974 Columbia River Transmission System Act, 16 U.S.C. § 838 et seq., provides in pertinent part:

> The Administrator shall make available to all utilities on a fair and nondiscriminatory basis any capacity in the federal transmission system which he determines to be in excess of the capacity required to transmit electric power generated or acquired by the United States.

16 U.S.C. § 838d (emphasis added).

the Intertie for its own use.[46] The LADWP opinion explains BPA's duty to make excess capacity available to others as follows:

> Transmission lines used for BPA energy in the Northwest are to be made available to other users if not needed by BPA. 16 U.S.C. § 837e.

759 F.2d at 692 (emphasis added). Note that the court does not say that transmission capacity can be withheld because BPA would like to prevent another utility from competing for a potential BPA customer, but rather only to prevent the use of intertie capacity that BPA needs to use for its own power. The proposed LTIAP reserves for BPA all of the capacity it needs to transmit all surplus firm power.[47] Going further and prohibiting certain types of transactions by others, even when transmission capacity over and above BPA's firm needs is available, seems to violate the LADWP court's sense of the limits of BPA authority.

[46] The California utilities and regulatory commissions continue to believe that Congress intended that this reservation would be limited to that federal energy which BPA could reasonably expect to be able to sell in a competitive market. We recognize, however, that BPA reads the LADWP opinion to grant unrestricted power to reserve intertie capacity for BPA sales whether BPA's price is competitive or not. See note 48 and accompanying text.

[47] The CEC questions whether even this reservation is proper given that BPA has not provided an evidentiary basis for concluding that it needs to shut out competition with BPA for the ability to sell this energy and given that the amount of firm energy BPA will have is speculative. Nevertheless, assuming that BPA does have authority to reserve Intertie space for the firm energy that it reasonably expects to have available, it clearly does not have authority to reserve the entire Intertie in order to promote its marketing of that firm energy.

The LADWP court follows the above quoted statement with an examination of the legislative history of the 1964 Act:

> The legislative history of the Act explains that
>
> > In determining the existence of capacity excess to the needs of the Government, Federal needs reasonably foreseeable may be included, but the Secretary may not decline to enter into [agreements to transmit other utilities' power] merely because he may have energy available for sale to serve the same load.
>
> H.R. Rep. No. 590; 1964 U.S. Code Cong. & Ad. News at 3350.

Id. Giving this passage the most favorable interpretation possible to BPA,[48] the court then states:

> BPA is permitted, therefore, to reserve sufficient Intertie capacity not only for its current needs but also for its 'foreseeable' future needs, so long as the agency does not compete with other utilities on the mere speculation that it 'may have energy available' sometime in the future to sell to the same customer.

[48] Los Angeles had argued that this language showed that Congress only intended that BPA could reserve capacity on the line if it was successful in marketing its energy. LADWP emphasized the prohibition in this passage against declining to transmit other power "merely because [BPA] may have energy available for sale to serve the same load." The court gave BPA the benefit of the ambiguity in this passage of the legislative history by reading the prohibition to mean only that BPA could not refuse to share its transmission facilities merely because it could speculate that it might have power in the future, rather than reading it to prohibit BPA from reserving capacity for energy it actually has presently or would foreseeably have in the future but might face competitive pressures in marketing. The CEC believes that if the court indeed intended to grant BPA unrestricted power to reserve capacity regardless of whether BPA has priced its energy competitively, the court erred in its reading of the legislative history. But even if this expansive reading of BPA's authority is correct, the court did not (and could not) permit BPA to reserve intertie capacity for which it had no power, simply to prevent others from competing for potentially scarce buyers.

759 F.2d at 692 (emphasis added).[49]

In our comments on the 1986 draft LTIAP, we argued that since BPA had not precisely defined what harm it would suffer from permitting assured delivery for exchange transactions, it appeared that BPA was attempting to reserve capacity "on the mere speculation that it 'may have energy available' sometime in the future," and was doing so for the impermissible purpose of preventing California utilities from satisfying their needs for electricity through less expensive means than purchasing BPA's surplus firm power.[50] We said that BPA must, at a minimum,

[49] In addition to the 1964 and 1974 statutes, Congress in 1980 reemphasized BPA's obligation to provide excess transmission service by indicating in 16 U.S.C. § 839f(i)(3) that the Administrator is required to provide transmission service "unless he determines that such services cannot be furnished without substantial interference with his power marketing program . . ." [emphasis added]. While BPA has tended to read this language as a broad grant of discretion to deny access whenever BPA decides its revenues may be adversely affected, the LADWP opinion does not reflect this view that the requirements of the 1964 and 1974 statutes have been radically altered by the 1980 Act.

[50] BPA's current projections show that BPA has less than 1000 MW of firm surplus power today and that this surplus should decline steadily over the next decade. The intertie has a minimum capacity of about 4000 MW, and with upgrades that are planned and under construction, it could rise to as high as 7900 MW. There is therefore no conceivable way that BPA could, within the next several years, require the entire capacity of the intertie to transmit its firm power surplus. By limiting the ability of other sellers to deliver their firm power products (such as exchanges), BPA is, in essence, reserving not only the capacity that it needs for its own firm energy, but also the capacity others need in order to compete with BPA in the market for firm energy products.

define the harm to be avoided[51] so that utilities seeking assured delivery can attempt to address BPA's legitimate concerns (if there are any), and so that the courts may review the policy with an understanding of what justifies the restriction on exchanges and other firm transactions for the next decade or longer.

BPA has now made substantial progress in this proceeding in providing a basis for understanding the different elements of potential "harm" to BPA from firm transactions for which it might grant assured delivery service. On the basis of BPA's analysis of this issue, we can attempt to comment on BPA's proposal to limit assured delivery to no more than 800 MW and on its proposal to "mitigate" the "harm" it foresees.[52] Our comments address the following topics: (1) the limitation of assured delivery to 360 MW for firm power sales and 440 MW for seasonal exchanges; (2) the "use your own first" provision; (3) BPA's operational "mitigation" proposals; and (4) the "mitigation surcharge" proposal.

[51] That "harm" is limited, according to the LADWP court, to BPA's inability (and the consequences thereof) to sell reasonably foreseeable amounts of power because of a lack of Intertie capacity.

[52] Unfortunately, despite our request (see FOIA Request, question 7) BPA has not provided any documentation for its one study on assured delivery. The parties are thus left with nothing more than faith in BPA to support the hope that the study is accurate and reliable.

A. The Proposed 800 MW Limitation on Assured Delivery

We note at the outset that the studies that BPA and the Pacific Northwest Utilities Conference Committee (PNUCC) have done to segregate and quantify the ways in which firm transactions between other parties (not including BPA) can affect BPA revenues have shown that these transactions can have many effects on BPA that are not related exclusively to BPA's inability to get access to its own transmission lines for sale of power it reasonably foresees will be available.[53] Yet, as noted above, the LADWP court has indicated that it is permissible for BPA to refuse to grant access to others only if the latter concern exists. BPA's reliance on other more speculative concerns makes it clear that BPA is not strongly motivated to make firm transactions by others possible even though the statutes require BPA to make available transmission capacity that it does not need for its own energy. BPA must therefore carefully explicate each provision of its policy that has the effect of making deals difficult, showing that the reason for it is grounded in the sole legitimate statutory mandate--allowing reasonably foreseeable BPA sales to occur—and not just on speculation that BPA might be better off to see others unable to participate as they wish to in the market.

[53] Examples include potential changes in the California spot energy market and the "what if" effects that require speculation that if a given seasonal exchange transaction did not take place, then BPA would be able to sell its own surplus energy and/or capacity to the same California and/or Northwest customer. See Comment No. 3-135; Summary of PNUCC study of impacts on BPA revenues from seasonal exchange transactions, Transcript, p. 868.

The 1986 LTIAP proposed to limit assured delivery to the size of the non-federal utilities' firm energy surplus (set forth for each utility in Exhibit B of the policy). The exhibit B surplus is now 361 MW. In the revised draft, BPA now proposes to add assured delivery for seasonal exchanges but has limited the amount to 440 MW. At times, the suggestion has been advanced that since there is more demand for seasonal exchanges and since these exchanges have a lower economic impact on BPA, perhaps BPA could simply combine these two numbers to an 800 MW limit for all types of assured delivery. Nevertheless, the 440 MW limit on seasonal exchanges bears some discussion because it was the original basis for the total limitation on assured delivery.

BPA first tried to justify this limitation on the theory that operational limitations resulting from low August Firm Energy Load Carrying Capability (FELCC) of the non-federal portion of the coordinated system would not safely permit a larger amount of exchanges to take place without risking drawing down the reservoirs in August below their required levels. Transcript, p. 6, l. 15-24. There are several problems with this justification that render it invalid.

First, the limitation is ostensibly based on the ability of the regional hydroelectric generating system to produce energy. Transcript, p. 27, l. 4-20. However, some utilities have thermal generating facilities, which may be able to be operated during

August without jeopardizing generating capability at other times of the year, and there are some regional resources that are not included in the calculation of August FELCC. The 440 MW number should be raised to allow transactions based on those resources. Transcript, p. 55, l. 11 - p. 56, l. 14; p. 114, l. 10 - 16.

Second, since FELCC is an energy limitation and most exchanges are aimed at providing capacity, there should be operational mechanisms for dealing with low August FELCC other than simply prohibiting transactions. For example, exchange contracts could be required to have a provision allowing the Northwest utility to require return energy at night in August in any year in which low FELCC is a problem, with some compensation mechanism when such returns are actually required.

Third, the 440 MW capacity limitation does not reflect the reality of seasonal exchanges. BPA appears to base the 440 MW limitation on the assumption that that amount of energy would be delivered continuously during August. However, Les Bryan, of the Washington Water Power Company, noted that most seasonal exchange contracts that are currently under negotiation are at a 50 percent load factor. Transcript, p. 25, l. 14-15. For example, if a Northwest utility has a contract with a California utility for an South-in-August, North-in-January exchange of 880 MW of capacity at a 50% load factor, the 880 megawatts will be delivered to the California during only 50% of the hours in

August.[54] As Mr. Bryan pointed out, the amount of energy that would be delivered under such an agreement is equivalent to sending 440 megawatts 100 percent of the time. Thus, Mr. Bryan suggested that BPA should apply an appropriate load factor (such as 50%) to the 440 megawatts and raise the limitation on seasonal exchanges.

When faced with Mr. Bryan's suggestion, BPA suddenly changed the "justification" for the 440 mW limitation from an operational concern to an economic concern: BPA recognizes that exchanges will serve California needs in heavy load hours when the market tends to allow the price of energy to be higher and when BPA would like to be in a position to serve that market (with nonfirm energy) if it is available. Transcript, p. 25, l. 8 to p. 26 l. 21.

In other words, the limit is based, at least in part, on speculation that BPA might have energy in August to sell to California at a high price, but that the California demand will have already been satisfied by these seasonal exchanges. BPA's solution is to limit exchanges, thus prohibiting some transactions simply because they may compete with energy BPA may

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[54] This makes sense because the California utility would have a much greater need for the energy during the daytime peak load hours than at night.

have to sell at some point in the future.[55] But this type of limitation is not allowed by the applicable statutes, as we showed above.

If there was any remaining doubt that the 440 MW limitation has no valid justification, it was removed during further questioning during the January 6th hearing as to the derivation of the 440 MW number. BPA staff had earlier deferred to Robert Lamb (who had not yet arrived). Transcript, p. 30, l. 6-12. When he did arrive, however, he admitted that the 440 MW limit was not based on any study or analysis and candidly indicated that the derivation of 440 was merely a matter of subtracting 360 MW in Exhibit B from 800 MW. Transcript, p. 103, l. 15 to p. 104, l. 15. In other words, not only is the 440 MW limit not grounded in any rigorous analysis of real operational constraints,[56] but it appears to have been arrived at by initially selecting an arbitrary 800 MW figure.[57]

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[55] Section 2 of the LTIAP reserves a sufficient amount of the Intertie to handle all of BPA's firm power surplus in the event that BPA should be able to market it. Therefore, the economically motivated 800 MW limitation on firm transactions on the rest of the Intertie, by definition, must be for the purpose of protecting sales of nonfirm energy that BPA is speculating that it may have for sale some of the time in the future.

[56] BPA did say that a future study is being considered, but no methodology has been developed yet. Transcript, p. 106, l. 11-15.

[57] There is suspicion that this 800 MW figure may have been chosen more because it conveniently fit with a strategy for making Intertie ownership participation by other Northwest utilities impossible than for any other reason. See discussion of the "use your own first" rule, below.

A further indication that the 440 MW limit is arbitrary and not based on any true operational problem is found in Section 4(c)(1) of the policy, which offers to provide assured delivery without limitation to "joint ventures" that include BPA and assist it in marketing its own surplus power. There would be no need for this provision (in which BPA asks third parties to help BPA with its own marketing problems) if BPA had not already created an artificial scarcity of assured delivery.

Finally, to the extent that there is any statutory validity to BPA's economic concerns about losing nonfirm energy sales of its own, those should be able to be addressed in the "mitigation" section of the LTIAP. If BPA can be made whole for any reasonably expected nonfirm energy sales that it may lose as a result of granting assured delivery for an exchange transaction, it should be able to permit exchanges on all portions of the Intertie that are not required for possible use by BPA to support its own firm power sales. At the very least, BPA must consider setting higher limits in order to avoid the need to ration an arbitrarily limited amount of assured delivery.

B. The "Use Your Own First" Proposal

We also note with strong disapproval section 3(d) of the revised draft LTIAP, which requires Northwest utilities to use any other transmission path they may have to California before obtaining any service from BPA. Particularly objectionable is

BPA's apparent intent to decrement a utility's assured delivery in the future, after a contract has already been signed, should that utility obtain ownership or contractual rights to a transmission path to California. This intended application of section 3(d) makes the provision nothing less than an in terrorem clause, designed to make it difficult, if not impossible, for other Northwest parties to participate as owners of new transmission lines to the south. The message is clear: disturb BPA's monopoly position and BPA will try to make you lose as much as you gain.

It does not escape our attention that both the decision to expand assured delivery service to the magic 800 MW level and the institution of section 3(d) follow close on the heels of Congressional direction to BPA to study the possibility of permitting other Northwest parties to participate as owners in the Third AC Intertie project. It appears that BPA has never intended to see that Congressional direction bear any fruit, and these actions in the revised draft LTIAP suggest that BPA intends to sabotage the efforts of others to become owners.

As several parties noted during the public comment sessions, the threat to decrement already granted assured delivery is particularly troublesome in that it puts the California party to a long-term contract at risk that the Northwest utility with whom he is dealing may someday obtain a transmission path to some

other part of California, lose his assured delivery, and be unable to perform under the contract. Since the purpose and main value of this type of contract is to provide long-term planning certainty, and since section 3(d) provides that the California party can never have that certainty since his contract can become inoperable through no fault of his own, section 3(d) threatens to make many otherwise mutually beneficial deals unworkable.

BPA has tried to suggest that this need not be a problem because BPA could arrange an exchange of transmission capacity if the Northwest utility's new capacity could not be used to serve the existing contract (Transcript, p. 95, l. 7 to p. 96, l. 3), but it is not clear what the terms and conditions of such an exchange would be or that they would be fair and workable. There is obviously great fear of the prospect of trying to negotiate an exchange of transmission capacity with an entity with as much power as BPA has to make a contract work or not work, particularly when it is clear that BPA does not favor the prospect of sharing its transmission ownership position with others.

The CEC strongly urges that BPA delete section 3(d) entirely or revise the "use your own first" section to apply only to a transmission link with a California party that exists at the time assured delivery is provided for a transaction with that party. At a minimum, BPA should provide an orderly process for

determining when a party's assured delivery will be decremented, providing no less than five years notice to all parties to the contract before the decrementing takes place so that there is time to make alternative arrangements if the contract can no longer be performed.

C. BPA's Operational Mitigation Proposals

Just as BPA has no authority to withhold transmission capacity that is excess to its needs, it follows that BPA also has no authority to impose operational conditions that "mitigate" impacts that are not related to harm that BPA may suffer as a result of loss of transmission capacity that it needs for its own reasonably foreseeable sales. BPA's proposed mitigation measures, particularly those related to seasonal exchanges, do just that.

1. BPA's Estimates of Harm from Firm Transactions

On January 6, 1988, BPA staff provided a summary of its study of the revenue impacts on BPA of firm energy sales and seasonal exchanges. Table 1 of that study shows that, putting aside the speculative potential for capacity sales by BPA to Northwest and California utilities,[58] the impacts of a seasonal

[58] BPA itself made clear that its analysis of displaced firm capacity sales is nothing more than the "mere speculation" condemned by the LADWP court (759 F.2d at 692):

> Mr. Gardiner: Does Bonneville expect that the megawatt limits on firm power sales and seasonal exchanges will make it easier for Bonneville to market its firm surplus to California buyers under long-term contracts?
>
> Mr. Metcalf: Well . . . it's been controversial since the beginning of the Access Policy. We think that might happen. I mean . . . if lots of other Northwest utilities are making sales to California, that could well impact Bonneville's sales.

Transcript, p. 38, l. 19-24 (emphasis added).

To its credit, BPA has not yet alleged that it has the right to mitigate this potential "harm" and its mitigation measures do not seem to be addressed to this problematic area.

exchange transaction are the sum of (1) BPA's expected "lost" nonfirm energy sales to California in the summer months when the exchange transaction sends power south, plus (2) BPA's expected lost priority firm sales to the Northwest utility in the winter when return power flows north; less (3) the wheeling revenues BPA will obtain for providing transmission service for the transaction.

As noted early in these comments, BPA's study commenced from the assumption that the exchange would displace BPA nonfirm energy sales and that without the exchange, those sales would be made with the full protection from competition afforded by the pro rata allocation scheme. This flaw alone renders the study invalid. BPA should redo this study when it has properly restructured the LTIAP and revise the predicted impacts of exchange transactions to reflect the more competitive policy BPA should be adopting.

The study is also flawed because it overlooks several potential benefits to BPA that may flow from seasonal exchanges. For example, the study contains no analysis of the additional nonfirm energy sales BPA may be able to make to the California utility for the purpose of meeting its return obligation. This omission is glaring, given BPA's attempt to better take advantage of this opportunity in its proposed mitigation measures. It also overlooks potential reductions in BPA's residential exchange subsidy payments, if non-deemer utilities enter into seasonal exchange transactions. The study also fails to analyze the potential improvement in the California market that could result from decreased pressure to develop new California resources including qualifying facilities.

Even taking the numbers in Table 1 at face value, our next observation is that they show that almost 700 MW of seasonal exchange transactions (at a 50 percent capacity factor) cost BPA approximately $5 million annually assuming no mitigation. This is a very small amount in comparison to the tens of millions of dollars BPA loses annually by sharing the Intertie pro rata during spill conditions, and we note that BPA does not require "mitigation" for those losses.

Finally, we observe that the study would actually show benefits to BPA but for BPA's assumption that it will lose priority firm energy sales. Yet we note that even the study

describes this factor as "potential PF sales displaced by winter return of the Seasonal Power Exchanges," apparently recognizing that these sales may or may not be lost o. that the losses may be less than assumed in the study.

All of these problems with BPA's mitigation study reveal its fundamentally misguided premise. BPA seems to go by the theory that it is not only entitled to be made whole for loss of access to the Intertie for its own sales, but also for any changes that may take place in the Northwest and California markets that may affect the price BPA can obtain. Since seasonal exchanges between non-federal utilities in the Northwest and California were one of the original justifications given to Congress for building the Pacific Intertie, it is clearly excessive for BPA to seek to be made whole not only for its loss of ability to transmit its own power but also for the incidental effects such transactions may have on the markets BPA serves.

2. The Mitigation Measures BPA has Proposed

The mitigation measures BPA has proposed are found in section 4(d)(4) of the LTIAP. The first two measures, which apply to both firm sales and seasonal exchanges, are in section 4(d)(4)(A); they address the problem of lost BPA nonfirm sales to California for lack of Intertie space. These provisions require that whenever the Intertie is in Condition 1, (1) the Northwest utility's amount of assured delivery for firm transactions will

be deducted from its formula allocation for hourly transactions and (2) if the utility's formula allocation is insufficient (i.e., less than the assured delivery amount), the utility must buy enough energy to make up the difference from BPA at the then-applicable rate.

Like several other features of the revised draft LTIAP, section 4(d)(4)(A) is problematic because of BPA's considerable discretion to determine when Condition 1 (spill or an undefined "likelihood" of spill) is in effect, and thus to require mitigation when it is not appropriate. Putting this problem aside, however, the first provision of the section seems to be a reasonable approach of insuring that BPA does not lose spot market sales to California as a result of having granted assured delivery during true spill conditions.

The second provision of section 4(d)(4)(A), which deals with the potential problem of the utility who does not have enough allocation to cover his assured delivery amount, is reasonable in concept <u>if</u> one assumes that pro rata formula allocation will occur, but it should be broadened to allow the utility to cover his assured delivery through a purchase from <u>any</u> Northwest seller of energy who has an allocation and is willing to use it to deliver the energy south--this minor change in the second sentence of section 4(d)(4)(A) would be an improvement because it would prevent BPA from having captive customers under

circumstances where that could affect the judgment of the operators who set BPA's price. However, since we have firmly opposed the pro rata allocation scheme, particularly as it applies to the non-federal utilities, we must oppose the requirement that utilities with assured delivery be required to buy energy whenever their formula allocation is less than their assured delivery amount. Equivalent protection for BPA's energy can be obtained by simply calculating BPA's share of the Intertie during Condition 1 based on the size of the Intertie before the assured delivery and then allocating first to BPA, then to the assured delivery holders, and then in a block to all others competitively. If there were not enough capacity to cover both BPA's share and the assured delivery amounts, only then should the assured delivery holders be required to buy energy from BPA, pro rata, to make up the difference.

While the provisions of section 4(d)(4)(A) directly address the problem of BPA's loss of Intertie share during spill, and thus have some reasonable basis in the statutory priority BPA enjoys in the use of its Intertie, the provisions of section 4(d)(4)(B) are an entirely different matter. Section 4(d)(4)(B) contains two provisions that work together. The first requires that all return energy from any seasonal exchange be scheduled at the California-Oregon Border (COB) or the Nevada-Oregon Border

(NOB) under prescheduled hourly energy returns.[59] The second prohibits cash out provisions in exchange contracts.[60] (Cash outs allow the California utility to simply pay for the energy it is obligated to return instead of actually scheduling the return.) The purpose of these provisions, according to BPA, is to ensure that the potential marketing benefits that may accrue from the winter return aspect of seasonal exchanges are shared pro rata among the sellers in the Pacific Northwest--instead of being reaped entirely by the exchanging utility that voluntarily undertook the risks and obligations of the exchange contract. Transcript, p. 51, l. 23 to p. 52, l. 4; p. 101, l. 1-6.

First of all, these provisions are irrational, because they apply only to seasonal exchanges, thus imposing more mitigation on transactions that, according to BPA's study, have a far

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[59] Because energy almost always physically flows from north to south on the Intertie, BPA operators view return obligations as negative southward flows which create theoretical additions to the size of the Intertie during those hours when the returns occur. Although electrons cannot physically move both ways at the same time, if the Intertie is full of energy moving south, the obligation to return energy north at the same time can be envisioned as creating a new California load and a larger California market for energy, whether it is actually generated in California or in the Northwest. BPA requires returns to be scheduled at COB or NOB to enable BPA to take advantage of this paper increase in the available market.

[60] Section 4(d)(4)(B)(ii) simply prohibits cash outs during conditions 1 and 2. The last sentence of this section indicates that "The rate of a cash out during Condition 3 shall not exceed than [sic?] the rate at which the exchange return could have been scheduled." The meaning of this provision is unclear, even if the word "than" is omitted. Has something been left out?

smaller revenue impact on BPA than firm energy sales.[61] From this perspective alone, BPA should delete section 4(d)(4)(B).

In addition, the provisions of section 4(d)(4)(B) are very destructive to potential seasonal exchange transactions because they eliminate much of the operational flexibility that the parties to the exchange may have been bargaining for in striking the deal. They require the Northwest exchanging utility to take energy during Condition 1 whether he needs it or not, even if he is spilling energy at the time. They also introduce substantial uncertainty into the price of the return energy that could otherwise be dealt with in the contract if cash outs were allowed. The CEC submits that BPA does not have authority to withhold transmission service for seasonal exchanges unless the parties to the contract agree to structure their deal in a way that is disadvantageous to them, simply to ensure that BPA and other non-federal sellers get a pro rata piece of the return energy "market."[62]

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[61] The long term (19 year) total adverse effect of a 105 MW firm power sale is estimated in Table 1 of the January 4, 1988 BPA revenue impact study at $51 million while the total adverse effect of 695 MW of seasonal exchanges (at a 50 percent load factor) is estimated at $65 million. On a per MW basis, then, it would seem that seasonal exchanges result in only about 20 percent of the BPA revenue loss that firm sales cause, yet they are required to provide more mitigation.

[62] BPA stands to be the major beneficiary. If the exchange transaction creates a new market for return energy that BPA is interested in serving, BPA will be in a good position, with its major hydro-based resources, to compete for the opportunity to serve that return energy market. Section 4(d)(4)(B) thus takes the LTIAP's pro rata allocation scheme and prohibition of

Equally alarming is the fact that the requirement for return at COB or NOB may require the California utility to pay BPA for fictional wheeling services and line losses that never occur. For example, if SCE has a seasonal exchange with PP&L, SCE may wish to buy energy from PGE for delivery to PP&L to satisfy the winter return obligation. In real life, SCE would pay BPA (or whoever else has transmission service available) for wheeling the energy the relatively short distance between PGE's generation and PP&L's load center. However, under the COB/NOB requirement, SCE would have to pay BPA wheeling and loss charges for an entirely unnecessary (and imaginary) transfer of energy from PGE to the border, and then back again from the border to PP&L.

If this is BPA's intent, BPA is essentially claiming the power to tax these transactions. This is beyond BPA's statutory authority. If it is not BPA's intent to charge for fictional wheeling and losses, that intent should be made clear in the policy since the specter of having to pay these potentially substantial charges may render some otherwise mutually beneficial transactions uneconomic.

In conclusion, there are many reasons why seasonal exchange transactions make sense for both regions, particularly if loads in the Northwest grow more quickly than is now expected. Nevertheless, because these transactions are now viewed as a

competitive threat to potential BPA surplus power sales, it appears that BPA is intent on loading them up with "mitigation" requirements that will discourage this type of transaction and may make them impossible. The CEC reiterates its belief that if BPA can protect itself from loss of the portion of the Intertie it needs during spill conditions through something like section 4(d)(4)(A), that is all the mitigation the statutes give BPA any right to require. To require more is bad policy in addition to being beyond BPA's authority.

D. The Mitigation Surcharge Proposal

BPA's study of the revenue impacts of providing assured delivery also estimated the amount of money that BPA expected to be able to recover through its mitigation measures. See Table 3 of the January 4, 1988 study. As a result of this estimate, it was proposed during the public comment sessions that BPA consider imposing a "mitigation surcharge" in place of the provisions of section 4(d)(4). Merrill Schultz proposed that the charge be set at $5/kW/Yr, which would recover $4 million a year from 800 MW of assured delivery. Transcript, p. 921, l. 19 to p. 923, l. 19. However, no consensus among the parties to this proceeding has yet developed over the appropriate amount of this surcharge.

The CEC does not believe that BPA has the authority to require mitigation in surcharge form unless it is limited to compensating BPA for the loss of reasonably foreseeable sales to

California over the Intertie. We do, however, like most parties, believe that a reasonable surcharge is likely to be preferable to the uncertainties and complexities of the operational mitigation measures BPA has proposed for the LTIAP. But a surcharge must not be so high that otherwise economic transactions become marginal. In any event, whether a surcharge is implemented or not, we urge BPA to give parties the option of (1) complying with a properly structured operational mitigation package, (2) working out a specific mitigation arrangement for their own contract, or (3) paying the surcharge if it is in place.

III

FISH AND WILDLIFE PROVISIONS

Section 7 of the revised draft LTIAP contains provisions that are purportedly designed to protect BPA's investments in protection of fish and wildlife in the Columbia River drainage. The theory behind these provisions was explained in detail and discussed thoroughly at the January 20, 1988 public hearing. In essence, BPA is stating that it will not provide Intertie access for new hydro resources located within "protected areas"[63] and may reduce (or "decrement") a utility's access either if it

[63] The policy initially defines protected areas by reference to a Northwest Power Planning Council staff draft Columbia Basin Fish and Wildlife Program. BPA apparently anticipates adopting its own designations at some later date. We ask, at a minimum, that BPA make clear that if contracts are entered into in reliance on the initial designation, they will not be adversely affected should the later designation be more comprehensive. See Transcript, p. 792, l. 12 to p. 793, l. 3.

acquires such a resource or if it fails adequately to mitigate fish and wildlife impacts of existing hydro resources that come up for relicensing at the FERC in the future. LTIAP § 7.

At the hearing on January 20, 1988, it became apparent that these provisions address a strong perception within the environmental community that there is substantial development pressure on protected areas because of the desire to export power to the California market. Ralph Cavanaugh of the Natural Resources Defense Council explained that this perception grew out of the FERC's attitude toward new development two or three years ago when the FERC staff refused to find new allegedly damaging hydro development to be unnecessary for lack of need to serve the Pacific Northwest because FERC staff speculated that these resources could still serve the California market. Transcript, p. 593, l. 23 to p. 596, l. 2. Marc Sullivan of the Northwest Conservation Act Coalition thus stated the objective of section 7 to be "to prevent the Intertie from becoming an incentive or motive for inappropriate development within the Region." Transcript, p. 575, l. 11-13.

The CEC has several concerns with these provisions and their apparent rationale. First, we note that if there is indeed pressure to build inappropriate resources to serve the California market, that pressure is strongly influenced by the pro rata allocation scheme which promises competition-free pricing of

surplus energy sold to California. We are disappointed that the environmental representatives who have raised their concern about this pressure to send power south have not recognized that this lack of price competition is the principal cause. We invite them to join us in seeking a more competitive access policy which would reduce substantially the incentive to add new resources to serve the California market.

Second, while we do not dispute the need for BPA to be concerned with fish and wildlife protection, we do question whether the Intertie Access Policy is the proper mechanism for addressing this concern. We assume that BPA should be concerned about fish and wildlife protection whether the energy from a new resource in a protected area is used to serve a Northwest load or is exported to California. We therefore must ask why this concern is only raised in the context of a policy dealing with exports--are fish and wildlife protection not equally important if Northwest energy use is involved? Assuming that they are equally important, we urge BPA to address this problem in a more comprehensive manner rather than in the LTIAP. As Jan Pritchard of LADWP pointed out during the January 20, 1988 hearing, the proposed decrement to Intertie Access only addresses how BPA will punish those who develop inappropriate resources, rather than preventing such development up front. A more effective and more equitable policy would be for BPA to prohibit access to any of its transmission lines, including those that serve only the

Pacific Northwest. By disallowing access to the main grid, BPA would more effectively prevent this type of resource from being developed at all, rather than simply preventing export after the fact. Transcript, p. 639, l. 5 to p. 640 l. 17. It would also avoid the adverse effects of introducing substantial uncertainty into the provision of assured delivery.

Third, we note that if, as suggested by Marc Sullivan, the purpose of these provisions is limited to avoiding providing any incentive through the Intertie for inappropriate development, there is no basis for going beyond the development of new resources to decrementing access based on future disputes over the relicensing of existing facilities. As Administrator Jura himself noted during the hearing, there is a new federal statute (the Electric Consumer Protection Act of 1986) that promises to require the FERC to consider these fish and wildlife issues far more carefully than it has in the past. The Administrator also noted that BPA can intervene in those proceedings to present its own view as to what ought to be required for relicensing, and suggested that perhaps that process should be allowed a chance to work before resorting to a provision in the Access Policy that could be harmful to negotiations between potential exchanging utilities. Transcript, p. 712, l. 5 to p. 714, l. 18.

Our fourth, and perhaps most central, concern about these provisions is, indeed, the adverse impact they are likely to have

on these negotiations. By threatening to take away assured delivery at some point in the future if a Northwest utility either acquires a new resource in a protected area (even involuntarily through a PURPA contract) or if the utility fails to take fish and wildlife mitigation actions that BPA or the Council might desire in the context of relicensing, BPA introduces a substantial element of uncertainty in the long-term viability of the transactions California parties might like to negotiate in order to avoid the need to develop new resources.

A glib response to this point was offered during the hearing. Ralph Cavanaugh suggested that the California utilities could simply require the Northwest utility to promise not to build in protected areas, and, impliedly, to indemnify the California utility if it did build in a protected area and lost its assured delivery as a result. Transcript, p. 638, l. 10-20. This ignores the fact that regardless of what is put in the contract, someday there may be a need for litigation over the sticky question whether a loss of assured delivery was or was not the fault of the Northwest utility, and no California utility will value a contract that provides an opportunity for recovering compensatory damages after protracted litigation as highly as a contract that has fewer uncertainties to begin with. Regardless of which party runs the economic risk of the possible decrement to assured delivery, the uncertainty imposed by these provisions is a cost that makes the transaction less attractive and less

likely to occur despite its potential economic and environmental benefits.[64]

Our final concern goes to the issue of the possibility that PURPA projects in protected areas could be forced upon Northwest utilities that would thereby lose Intertie Access through no fault of their own. At the January 20, 1988 hearing, the environmental representatives who are promoting this aspect of the policy explained that this was necessary, in their view, to send a clear signal to the FERC and the state regulatory agencies that would set avoided costs for such facilities, that the addition of the facility would have a negative impact on the receiving utility, thus, theoretically, lowering the avoided cost payments and reducing the likelihood that the facility would be able to proceed. In other words, they view the provision not as meting out punishment, but rather as providing deterrence.

While the CEC can admire the ingenuity of the architect of this scheme, we firmly believe that, on balance, there are clearly more direct, more effective, and less harmful ways to address the perceived problem. The most obvious one is to redraft the policy as we have suggested to inject greater price competition among non-federal sellers so that the California market will not offer artificial attraction to inappropriate

[64] Seasonal exchanges in particular have substantial environmental benefits by avoiding the construction of unneeded power generation facilities.

development. We note, as well, that if a project is able to proceed, despite the intended adverse effect on avoided cost payments of the threat to decrement Intertie access, then the provision is exclusively punitive to Northwest and California parties who have had no part, other than through obedience to federal law (PURPA), in harming protected areas. We therefore ask BPA to eliminate these provisions in favor of a more appropriate solution outside the LTIAP.

IV

THE ADVANTAGES TO BPA AND THE ENTIRE NORTHWEST OF ADOPTING A MORE COMPETITIVE AND FAIR INTERTIE ACCESS POLICY

In these comments we have demonstrated that virtually all of the different parts of the Revised Draft LTIAP--shielding BPA's spot market sales from competition, establishing mini-monopolies for nonfederal sellers, impeding firm transactions, extracting "mitigation" for Assured Delivery, chilling future contract negotiations with Fish and Wildlife protective measures--are not justifiable on factual, legal, or equitable grounds. We have also suggested several alternatives that would remove many objections to the Policy while still accomplishing BPA's primary goals. In this final section of our comments we provide a fundamental policy reason for BPA to adopt a more appropriate LTIAP: only by doing so will Bonneville be able to preserve the California market that has provided so many benefits (including perhaps most prominently the hundreds of millions of dollars BPA

has used for Treasury repayments) for the agency and for all its Northwest partners.

Through a series of actions over the past several years, BPA (with no meaningful restraint by the FERC) has sent a discouraging message to California: (1) there are increasingly few limits on the prices that BPA will attempt to extract from California through its spot market rates; and (2) the former free market system of transmission access on the Pacific Intertie (which through natural competition helped keep Northwest charges to California reasonable) has been replaced with a monopolistic scheme that is keeping, and will continue indefinitely to keep, prices artificially and unfairly high. In the 1981 and 1982 BPA rate cases, California was told that BPA may include in its extraregional nonfirm rates the costs of facilities and programs that do not contribute to the availability of nonfirm energy. Opinion 250-A, 39 FERC ¶ 61,033 (1987); Opinion 250, 36 FERC ¶ 61,335 (1986). In the 1983 rate case we were told that BPA may unduly discriminate against its California customers. Opinion 271-A, 41 FERC ¶ 61,017 (1987); Opinion 270, 39 FERC ¶ 61,069 (1987). In the 1985 FERC Section 7(k) proceeding, BPA has asked FERC to approve a purportedly cost-based rate that will actually result in charges above cost. In its 1987 rate case BPA approved an extraregional nonfirm rate that has virtually no meaningful limit on "upward flexibility" far above cost. 52 Fed. Reg. 37,003 (1987). Finally, we are faced with the Intertie Access

Policy, which removes whatever restraints a competitive power market could have put on these unfortunate pricing policies.

These positions, developed over the past several years, have convinced energy planners in California that nonfirm energy from the Pacific Northwest will not, in the future, be as attractive as it used to be for California utilities. Moreover, as the CEC has noted in its Sixth Electricity Report,[65] California regulators increasingly perceive the actions of BPA and FERC as indicating that those federal agencies regard California as a deep pocket that provides the answer to BPA's and the federal treasury's revenue problems, and that they have no intention of striking a reasonable balance among the interests of California ratepayers, Northwest ratepayers, and federal taxpayers. For all of these reasons, California regulators are increasingly wary of relying on Northwest nonfirm energy as a long-term power source, and are carefully examining other alternatives that will, if developed, substantially reduce the size of the Pacific Northwest's market in California, thereby reducing BPA's revenues and limiting its ability to repay the Treasury.

As we have previously explained to BPA, and as BPA staff have learned though active participation in several CEC and CPUC

[65] The issues presented on this and the following pages are discussed in extensive detail in the CEC's Sixth Electricity Report ("ER-6") (especially chapters 5.5 and 6). A copy of ER-6 is attached to and incorporated by reference in these comments.

proceedings, such alternatives do indeed exist. Since the passage of the Public Utilities Regulatory Policy Act ("PURPA") in 1978, California has seen an explosion of qualifying facility ("QF") development. QFs are generating facilities that are owned by non-utility entities and that are entitled to sell electricity to a utility at the utility's "avoided cost"--the cost that the utility would otherwise have incurred to generate or purchase the electricity from another source. 16 U.S.C. § 824a-3; 18 C.F.R. § 292.304. Because QFs, unlike regulated utilities, are not entitled to an opportunity to earn a pre-established rate of return, in order to obtain financing they need a guarantee that at least some of their electrical output will be purchased. This guarantee takes the form of contracts with the purchasing utilities that obligate the utilities to take the QF-generated power for a certain number of hours during the year. Obviously, if a utility is obligated to take power from one source, its ability to take power from an alternative source--such as the Pacific Northwest--will be curtailed. In other words, in order for California utilities to be able to take advantage of economic nonfirm energy purchases, there must be sufficient flexibility in their systems to do so. By reducing that flexibility, every QF built in California is a threat to the Northwest nonfirm energy market.[66]

[66] The threat to Northwest sales is made more acute because QFs are not the only "must-run" facilities in California. California utilities will always run their own hydro facilities to prevent spill if at all possible; at times some oil and gas units may need to be kept running at minimum generation levels

Despite their inflexibility, QFs have important benefits for California. They provide long-term capacity, they are more efficient than most (if not all) utility-owned thermal generation, they can provide air quality and other environmental benefits, and, perhaps most important, they are indigenous--located in the state, and owned and operated, usually, by California companies. Moreover, since avoided cost pricing means that the purchasing utility's ratepayers should be indifferent, in the long run, whether the utility buys from QFs or from other sources, QFs are perceived as being on equal economic footing with alternatives. Several thousand megawatts of QFs are likely to be built in the next few years.

California regulators are facing several planning decisions, now and in the near future, that will affect the ability of Northwest nonfirm energy sellers to market their energy in California in the long term. These decisions will affect the number of QFs that are built, as well as other projects that will have a substantial influence on the Northwest's California market.

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during the nighttime so that they can be ramped up to meet higher demand the next day; safety considerations prevent rapid changes in the output from nuclear plants; and air quality concerns and contractual commitments may prevent geothermal facilities from being shut off when it is economic to do so. Thus, QFs add inflexibility to a system that is already limited in its ability to absorb Northwest power.

The Energy Commission has, in ER-6, given substantial protection against QFs to Northwest nonfirm energy, by reserving a "core" amount of nonfirm energy that should not be displaced. This means that most QFs licensed by the Energy Commission under ER-6 must allow themselves to be "dispatched" for sufficient hours during the year to allow the purchasing utility to take from the Northwest this "core" amount of energy. This requirement reduces the economic attractiveness of QFs, and makes it more difficult for QFs to obtain licensing approval. However, the rule is not ironclad. The Commission may also examine whether there are unusual circumstances that would justify allowing QFs to displace Northwest nonfirm energy. Moreover, the Energy Commission is currently developing its Seventh Electricity Report, in which it will consider whether to raise, maintain, or lower the amount of Northwest nonfirm that receives protection. The CEC's expectation of the price at which that energy is likely to be sold, which will be substantially affected by the type of LTIAP that BPA adopts, is probably the most important determinant in resolving these issues.

At the California Public Utilities Commission ("CPUC"), an ongoing proceeding (known as "OIR-2") to define the "long-term avoided cost" to be paid to future QFs will have a significant impact on the extent to which even further QF development in the future may continue to squeeze economy energy out of the California market. In addition, in the coming months, the CPUC

will be considering the California-Oregon Transmission Project[67], the DC Terminal Expansion Project, and the Devers-Palo Verde #2 Transmission Project. Decisions on these projects will be affected by the CPUC's assumptions as to future BPA rates, and their fate will substantially affect the competitive position that BPA and the Northwest experience for many years.

Obviously, if BPA's California revenues decline, its ability to satisfy its statutory obligation to amortize the federal investment in Northwest power facilities will suffer considerably. Northwest utilities will also be hurt if BPA's sales are diminished. Because BPA credits revenues from its extraregional nonfirm sales against its firm power rates in the Northwest, if BPA's revenues decline rates in the Northwest will go up. Moreover, if BPA's California market shrinks, the agency may have to be considerably less generous in sharing the Intertie with other Northwest sellers.

Given the history of past BPA and FERC decisions, the nature of the California electricity market, and the decisions facing California regulators that will affect the Northwest's ability to participate in that market, we hope that it is clear to BPA that

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[67] On February 16, 1988, the CPUC affirmed the action of its Executive Director in delaying Certificate of Public Convenience and Necessity proceedings for the California portion of this project in three separate opinions. One opinion, signed by two commissioners, indicated the view that the project may not be cost effective if the LTIAP is adopted in its current form.

the ramifications of its decision on the revised draft LTIAP are highly significant. In that decision, BPA will tell California either (1) that it is concerned with giving sufficient weight to California's needs, and with striking a reasonable balance among the statutory policies applicable to the agency, so as to justify continued reliance on Northwest nonfirm power, or (2) that California should expect the pattern of past disregard of the State's interests to continue unabated into the future. Only the former will assist BPA in making timely Treasury repayments in the long term and will benefit all the parties to this proceeding--California, BPA, and Northwest utilities and customers.

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CONCLUSION

The California Energy Commission appreciates the opportunity to comment on the revised draft LTIAP. We acknowledge that BPA has undertaken the perhaps impossible task of trying to please--or at least not unduly disappoint--an extraordinarily large and diverse constituency in which there are several prominent groups whose interests may well be irreconcilable. Although we have made many critical comments, we have done so in a constructive spirit and with the expectation that BPA will in good faith give careful consideration to the issues we raise. If this expectation is fulfilled, we believe that the result will be a substantially improved Intertie Access Policy.

February 19, 1988

Respectfully submitted,

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PROPOSED SECTION 5(C)

(c) Allocation Methods

(1) Until December 31, 1988. Intertie Capacity will be allocated pursuant to the Exportable Agreement (BPA Contract No. 14-03-73155), when applicable. When the Exportable Agreement is not applicable, Intertie Capacity will be allocated as set forth in paragraph (c)(2).

(2) After December 31, 1988. Under all operating conditions, Intertie Capacity will be allocated based on declarations of available energy for export at BPA's declared price, from BPA, Scheduling Utilities, and Extraregional Utilities as follows:

(a) In each hour when BPA declares its nonfirm energy standard rate to be at or below the cost of nonfirm energy as determined in the most recent BPA rate case, BPA shall allocate Intertie capacity first to itself based on the ratio of its declaration to the sum of all declarations, multiplied by the available Intertie capacity. BPA may increase this allocation by multiplying it by a further factor, determined in the most recent BPA rate case, if BPA determines in that rate case that additional capacity is necessary to mitigate the revenue impact on BPA, as predicted in the decision in the most recent rate case, of (i) allowing others to compete with BPA when it sells above cost, and (ii) allowing competition among Scheduling Utilities and Extraregional Utilities. After BPA's allocation has been sold, all remaining Intertie Capacity shall be made available to the remaining Scheduling Utilities and Extraregional Utilities, first come-first served based on first transactions arranged with California utilities. If BPA is unable to sell its allocation at its declared price in time to preschedule the remaining capacity it may, at its option, (I) lower its price to a market expansion rate in order to sell its allocation and make the remainder of the capacity available to the remaining Scheduling Utilities and Extraregional Utilities, first come-first served based on first transactions arranged with California utilities, (II) sell all available BPA energy using the entire Intertie capacity at whatever rate or rates it can get at or below its initially declared price and allocate those sales, after the fact, pro rata, based on the declarations to those Scheduling Utilities and Extraregional Utilities who wish to participate, or (III) sell what it can at its original price and leave the remainder of the Intertie unfilled.

(b) In each hour when BPA declares its nonfirm energy standard rate to be above the cost of nonfirm energy, BPA shall allocate all Intertie capacity, first come-first served based on first transactions arranged with California utilities.

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