

**UNITED STATES OF AMERICA
U.S. DEPARTMENT OF ENERGY
BEFORE THE
BONNEVILLE POWER ADMINISTRATION**

PROPOSED METHODOLOGY FOR)	
DETERMINING THE AVERAGE SYSTEM)	BPA DOCKET NO. ASCM-08
COST OF RESOURCES FOR ELECTRIC)	
UTILITIES PARTICIPATING IN THE)	
RESIDENTIAL EXCHANGE PROGRAM)	
ESTABLISHED BY SECTION 5(c) OF THE)	
PACIFIC NORTHWEST ELECTRIC POWER)	
PLANNING AND CONSERVATION ACT)	
)	

**COMMENTS OF THE
IDAHO PUBLIC UTILITIES COMMISSION
ON THE DRAFT RECORD OF DECISION**

On May 29, 2008, the Bonneville Power Administration (BPA) issued a draft Record of Decision ("Draft ROD") regarding proposed changes to its Average System Cost Methodology (ASCM) authorized by Section 5(c) of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act). 73 Fed.Reg. 7270 (Feb. 7, 2008). The Idaho Public Utilities Commission (Idaho PUC) again appreciates the opportunity to provide comments to BPA on its proposed changes to the methodology for determining the ASC for electric utilities participating in the residential exchange program (REP). This matter is of great importance to all electric utility customers in Idaho, especially the customers of the investor-owned utilities (IOUs) subject to the jurisdiction of the Idaho PUC.

The Idaho PUC commends BPA for the significant improvements to the ASCM reflected in the Draft ROD. We believe the proposed methodology will provide a relatively accurate estimate of a utility's average system cost. In particular, we specifically support the adoption of

the Draft ROD issues pertaining to: the use of Federal Energy Regulatory Commission (FERC) Form 1 information; the adjustment of ASCs to reflect major new resource additions; and the inclusion of transmission costs, federal income taxes, return on equity, and regulatory assets and liabilities. We believe the proposed methodology accurately reflects the requirements of the Act and will result in an improved REP that is fair to all residential and farm customers throughout the Northwest.

ELIMINATION OF THE DEEMER MECHANISM

While generally supportive of the decisions reflected in the Draft ROD, the IPUC is concerned about issues related to the ASC that were not addressed in the Draft ROD. The proposed ASCM changes included in the Draft ROD are related and interconnected to decisions and issues associated with the WP-07 Supplemental Rate Case, as well as the proposed bridge and long-term REP contracts. We understand the rationale for parallel proceedings on these issues, but are also concerned that addressing each matter in separate dockets may fail to recognize the impact of decisions in one proceeding on issues in the other proceedings.

Specifically, the “deemer” issue remains a concern of the IPUC, and one that was raised during the consultation process and in our comments on the ASCM, but our concern was not addressed in the Draft ROD. One of the decisions reflected in the Draft ROD illustrates the relationship between this overlapping issue and the decisions in the Draft ROD. In Section 4.1.8 of the Draft ROD, BPA recited a comment filed in response to the appropriate consequences if a utility fails to file an Appendix 1. BPA proposed that a failure to file an Appendix 1 will result in BPA setting “the utility’s ASC equal to the PF1 exchange rate until the end of the Exchange Period.” Draft Rod Section 4.1.8 (Evaluation of Positions) at p. 33. The commenter noted that

suspending REP benefits “creates an alternative to incurring a deemer balance should the utility anticipate that its ASC will drop below the PF exchange rate during that period.” *Id*

To provide fairness and clarity to the REP on a going forward basis, the Idaho PUC believes that BPA should eliminate the deemer mechanism. In other words, when an IOU’s ASC is lower than the BPA PF Exchange rate, the IOU will not be eligible for current REP benefits or as the Notice states: “no payment flows from the utility to BPA.” 73 Fed.Reg. at 7271. If or when an IOU’s ASC becomes higher than the PF rate, the IOU would then become eligible to receive REP benefits. Requiring an IOU to pay the difference (i.e., when the utility’s ASC is lower than the PF Exchange rate) before receiving future REP benefits goes beyond the concept of “wholesale rate parity” between preference customers and IOU customers embodied in the Northwest Power Act. H.R. Report No. 96-976 (I) at 60, 1980 U.S.C.C.. In fact, this payment by an IOU may constitute a subsidy of either the other IOUs’ REP benefits or the public utilities’ rates or both.

Unless this proposed ASCM addresses the deemer mechanism on a prospective basis, the legal and financial disputes that hang like a dark thundercloud over the REP in the past will continue to do so into the future. Even taking into consideration the proposed changes to the ASCM, the possibility exists that one or more IOUs’ ASCs will be lower than the PF Exchange rate in future years. Moreover, there is no certainty that the current relationship between the IOUs’ ASCs and BPA’s PF Exchange rate will remain the same over time. In 2008, the electric utility industry still faces a great deal of uncertainty regarding resources, for example: carbon-based emissions, the integration of renewable resources, the construction of major transmission lines, new technologies for generation and customer resources, and environmental mitigation.

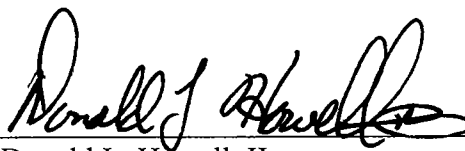
How the resolution of these uncertainties will affect the IOUs' costs/ASCs, BPA's Exchange rate, and the relationship between the two is unknown at this time.

Adopting a policy of suspending an IOU's participation in the REP (without accruing interest) when its ASC is lower than the PF Exchange rate, but resuming REP eligibility when its ASC is higher than the PF Exchange rate, is a solution that is easy to understand and implement. This policy harms no other party, and is consistent with the Northwest Power Act.

In summary, the Idaho PUC supports the Administrator's proposed changes to the ASCM. The Idaho PUC also recommends that the Administrator adopt the solution we propose for resolving the deemer issue.

Respectfully submitted this 12th day of June 2008.

FOR THE IDAHO PUBLIC UTILITIES COMMISSION



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