



**PUBLIC UTILITY DISTRICT NO. 1
OF MASON COUNTY**

N. 21971 Hwy. 101
Shelton, Washington 98584

BOARD OF COMMISSIONERS

KARL DENISON, Commissioner
JACK JANDA, Commissioner
RON GOLD, Commissioner

June 28, 2012

Stephen J. Wright, Administrator
Bonneville Power Administration
P.O. Box 3621
Portland, OR 97208-3621

Re: Status of Preference

Dear Steve,

As the elected representatives of our retail customers, who are the ultimate beneficiaries of preference established in Federal law, we are writing to express our concern and dismay over the direction your Agency has taken in a number of vital areas, and the detrimental impact on the retail customers who benefit from preference. While these actions may have been taken for what appeared to be good reasons, they are a part of a pattern of actions that have been taken without consideration of their impacts on preference customers.

One example is BPA's recent headlong rush to integrate massive amounts of wind generation onto the Federal transmission system. This was done without a thorough impact analysis on the operation of the Federal power system, or the ability to reliably deliver federal power to preference customers. Two recent BPA policies resulting from this wind generation integration illustrate both the nature of the problem and the reasons why we are very concerned about the trajectory of the BPA's policies.

It has recently become clear that as a consequence of integrating the large amounts of wind generation, BPA is now incapable of both:

- accepting all non-federal generation onto the Federal transmission system and, at the same time,
- taking the actions needed to comply with its Clean Water Act and the Endangered Species Act obligations during high wind/high water periods.

It should be noted that before the integration of the now massive wind fleet, BPA had the operational flexibility to manage high water events and comply with its environmental obligations.

To address this issue, BPA is currently implementing a program that pays the wind generators, who have caused the issue in the first instance, to reduce their generation to resolve this issue. And adding insult to injury, BPA is proposing to collect half of the costs of these payments from preference customers who had no role in causing BPA to incur these costs. The direct result of this BPA program is an increase in the costs borne by preference customers, and a resulting dilution in the benefits of preference.

The second policy implication is BPA's recent revelation that it may no longer have sufficient Federal power system redispatch capability to clear Federal transmission system congestion. This congestion threatens the delivery of Federal power to preference customers (like Mason 1's customers) taking NT transmission service. Once again, this has been caused primarily by the large amounts of Federal power system capacity that BPA has decided to withhold to integrate the variable output of wind generators.

Historically, BPA has had sufficient Federal system capability to redispatch Federal resources to clear transmission congestion to ensure reliable NT service to deliver Federal power to preference customers.



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The policy BPA is pursuing, if implemented, will increase both the costs of NT service, and the administrative and operational complexity for preference customers using non-federal resources to serve above HWM loads. This runs directly contrary to the objectives of the Regional Dialogue, which was a Agency-wide initiative aimed at getting preference utilities to reduce their reliance on BPA for service to load growth by developing non-federal resources for such purposes.

These two examples illustrate what appears to us to be an Agency-wide loss of focus from its core business, which is reliably serving federal power to preference customers at the lowest possible rates consistent with sound business principles. It depicts a troubling pattern of pursuing politically popular national policies, such as integrating massive amounts of wind generation, to the detriment of preference customers. The pattern has been that the policy initiative is pursued by the Agency, and when the unexpected adverse impacts become clear, part or all of the costs of dealing with those impacts are foisted on preference customers.

It is our view that little by little, policy by policy, the benefits of statutory preference are being diminished, and that this trend will be detrimental to not only preference customers but also to BPA, which takes its fundamental purpose from statutory preference and not from pursuit of national trends in electricity policy. We urge BPA to refocus and rededicate itself to its core business- the delivery of Federal power to preference customers. We urge you to lend more consideration to the impacts of your and our core businesses.

Yours truly,

A handwritten signature in blue ink that reads "Jack Janda".

Jack Janda
Commissioner

A handwritten signature in blue ink that reads "Karl Denison".

Karl Denison
Commissioner

A handwritten signature in blue ink that reads "Ron Gold".

Ron Gold
Commissioner