

megawatts (MW).¹ Under its current FERC license, 36.5 percent of the Project's power output is retained by Grant PUD. The remainder is sold at cost to Pacific Northwest utilities in the states of Washington, Oregon, and Idaho.

PGE's and Pacific's current contractual rights to Grant PUD's Priest Rapids and Wanapum Projects are the same. Each utility's allocation is as follows:

Priest Rapids	13.9%	67 MWa	Contract expires October 31, 2005
Wanapum	18.7%	80 MWa	Contract expires October 31, 2009

In 1998, based on filings from various regional interests, FERC issued an Order stating that upon relicensing, the Licensee may retain 70 percent of the Project's output for native load and sale to competitive markets. The remaining 30 percent is to be made available to Pacific Northwest utilities via a nondiscriminatory mechanism at market prices. Thus, this FERC ruling, upon relicensing, would increase Grant PUD's Project output allocation from 36.5 percent to 70 percent. In addition, the remaining 30 percent will be offered to regional utilities at market prices rather than the current situation of allocating at cost.

For the past several years, PGE has been pursuing negotiations with Grant PUD to secure a share of Project benefits during the next FERC license period. It is Staff's understanding that PGE and Grant PUD are near completion of a power sale contract for the post relicensing period. Under the preliminary agreement, PGE can expect to receive a share of Project benefits into the post-relicensing period. PGE's share would basically consist of three products: (1) A portion of Grant PUD's 70 percent allocation that is excess; (2) A portion of BPA displacement power that is available through 2011; and (3) A portion of the remaining 30 percent of Project output that is allocated to regional utilities.

It is Staff's understanding that PGE is under some pressure from Grant PUD to sign the negotiated power sale contract before the end of 2001. PGE indicates that Grant PUD has stated that parties signing settlement agreements after December 31, 2001, will receive reduced Project benefits.

Pacific has followed a different pathway. In partnership with the Yakama Nation, Pacific is developing a competing FERC application for the Priest Rapids Hydroelectric Project. In October 2001, The Yakama Hydroelectric Project, LLC, a limited liability company whose members are the Yakama Nation and PacifiCorp, entered the FERC relicensing

¹ In 1998 the Project produced approximately 9,430,000 MWh. This is enough electricity to meet the needs of the City of Seattle.

proceeding by issuing an Initial Consultation Document. This document lists the following primary objectives of the competing license:

- Share more broadly the economic benefits from the Project;
- Optimize hydropower operations;
- Achieve greater energy and water-use efficiency;
- Extend benefits of dams to new areas and peoples;
- Protect and enhance fish and wildlife;
- Enhance environmental, recreation, and cultural values.

STAFF COMMENTS

During 2001, PGE has periodically updated Staff on the status of its negotiations with Grant PUD. During this time, Staff has supported the efforts of PGE and other regional utilities to secure benefits of the Priest Rapids Project for Pacific Northwest electric customers. Given the 1998 FERC Order allocating 70 percent of post-relicensing Project output to the Licensee, we believe that PGE has negotiated a reasonable agreement.

Staff became aware of the Yakama Hydroelectric Project's intent to file a competing application in late August 2001. The October 2001 filing with FERC of a competing application has obviously changed the relicensing situation. Staff recognizes Pacific management's right to make resource decisions. At this time, Staff has no evidence to question the reasonableness of Pacific's decision to move forward with the Yakama Hydroelectric Project.

Based upon experience gained in the competing license situation between PGE and the Confederate Tribes of the Warm Springs for the Pelton Round Butte (PRB) Project, Staff offers the following comments:

- OPUC Staff should remain neutral;
- The PRB situation ended with a settlement agreement. It's likely the Priest Rapids situation will also end in settlement;
- Competition for a hydro license can benefit the community and environment;
- Conducting competing license applications is expensive to the applicants, as well as the many parties who participate in the process;
- We should avoid a situation where Oregon ratepayer monies are split between competing applicants (i.e., PGE should not be placed in a situation of having to actively support Grant PUD).

PROPOSED COMMISSION MOTION:

As mentioned, no Commission action is required. PGE has requested, however, that the Commission convey any concerns it may have regarding the pending PGE power sale contract with Grant PUD.