

**Comments of the
NW Energy Coalition
and Save Our Wild Salmon**
on
**the Bonneville Power Administration's
Long-Term Regional Dialogue Policy Proposal**
October 31, 2006

I. Introduction

The NW Energy Coalition ("Coalition")¹ and Save Our Wild Salmon (SOS)² are pleased to offer these comments on Bonneville's July 13, 2006 Bonneville Power Administration Long-Term Regional Dialogue Policy Proposal ("Proposal" or "Proposed Policy").

This Proposal has major implications for the region, so we compliment Bonneville for the extraordinary amount of time and staff it has dedicated to attempting to reach a regional consensus. Nevertheless, despite achieving that consensus on many individual aspects of the Proposal, we see several fundamental problems that undermine the goals of the Strategic Direction and cause us to withhold our support. We believe that the letter and intent of the NW Power and Conservation Act ("Regional Act," or "Act") is in jeopardy.

Our comments here will cover many details of the Proposed Policy and offer constructive changes. **But absent a major addition that would directly link the Proposal to the goals of the Regional Act, we have profound doubts that its implementation as currently written carries forward the priorities of the Act, serves the public interest well, or is sufficiently protective of Northwest salmon.**

II. Allocation – A Fundamental Change In Direction

In response to a set of problems that could be addressed with incremental, less radical solutions, Bonneville is proposing a long-term fixed allocation of federal power to its utilities, which would then become individually responsible for acquiring energy from the competitive marketplace to provide for their load growth. No longer would BPA plan for and serve the load growth of its public utility customers; instead, it would transfer that obligation to its utility customers. This transfer of obligation is the crux of our coalitions' concern.

BPA has a legal mandate to meet the growing energy needs of the region's public utilities whenever called upon. BPA meets these power needs with a specific resource development order and in a manner consistent with the Council's Power Plan. The Proposal hands off BPA's obligation to meet growing loads, but what Bonneville does not hand off – and cannot hand off -

¹ The NW Energy Coalition is an alliance of more than 100 environmental, civic and human service organizations, progressive utilities and businesses in Oregon, Washington, Idaho, Montana and British Columbia. We promote development of renewable energy and energy efficiency, consumer protection, low-income energy assistance, and fish and wildlife restoration on the Columbia and Snake Rivers.

² SOS is a nationwide coalition of conservation organizations, commercial and sport fishing associations, businesses, river groups, and taxpayer advocates – all joined in a commitment to restore Pacific Northwest wild salmon and the communities that depend on them.

is the obligation to follow the Council's plan and to develop all cost-effective conservation and renewable energy as the first resources of choice when considering new power generation. Instead the region potentially faces the uncoordinated planning efforts of more than a hundred utilities. This new model threatens to undermine the reasonable, consumer-protecting goals of the least-cost/least-risk resource and conservation Plan developed by the Council.

The Council's 5th Plan lays out a roadmap for energy efficiency and new resource development that should guide BPA's proposal, and to some extent it does. However, the agency relies heavily upon market signals to its utilities to achieve a large percentage of those goals. Disturbingly, the region is already reaping the results of the Proposal: a number of Bonneville's public utilities are planning on meeting their Tier 2 needs with output from coal-fed power plants. In 1996, after the Regional Review, when utility customers asked BPA to back off from conservation and resource acquisition, the region experienced the collapse of conservation funding by public utilities.

While it is true that Bonneville has pledged to achieve "its share" of the Council's energy efficiency target, it: (1) defined that share far too narrowly; and, (2) counts energy efficiency MWs achieved by those whose load is not met with BPA service toward its own target. Both of these "adjustments" reduce the likelihood of the Council's target being met.³ In addition, BPA is proposing to no longer allow Exchanging IOUs to use C&R discount funds, which is unfair to qualifying residential and small-farm consumers, in effect making them "second-class" beneficiaries of the federal system. This result is not consistent with the Regional Act, because it discriminates against the Exchanging IOUs' consumers.

Bonneville has contorted the clear intent of the Regional Act in setting its conservation target and in how it counts conservation achievements toward meeting that target in several ways.

- The Regional Act requires BPA to serve the entire load *growth* of its preference customers whenever requested, *whether or not those customers' loads are presently served by BPA*. For example, upon the expiration of the proposed contracts, each utility will be able to purchase from Bonneville its entire load growth since the signing of the contracts. This was made clear in 2001 when preference customers surprised BPA by requesting power that BPA had not planned for. While this caused a huge problem--occurring during the westwide energy crisis--the impact was greatly reduced from what otherwise could have been the case, because the agency had funded conservation efforts for decades in those utilities' territories, regardless of the share of their loads served by BPA. Therefore, **BPA's share of the Council's regional conservation target must include the entire load of its consumer-owned utilities, whether or not it is served by BPA, and whether or not it is Tier 1 or Tier 2 load.**

³ On the plus side, BPA's allocation concept does provide better price signals to utilities of the value of electricity consumed or saved. That may incent some utilities to focus more on conservation. However, this pricing signal could have been achieved much more simply, and without a radical allocation and transfer of load growth responsibility of the BPA system for 20 years. The Coalition proposed, for example, that utilities that conserve be given the full market value for those savings, rather than spreading that value to all public customers as is current practice (except for C&R discount savings of some partial requirements utilities that are able to remarket the MWs saved).

- The Regional Act requires that BPA serve the residential and small-farm customer loads of the IOUs with cost-based power from the federal system. While the source of this power has most often come from an Exchange purchase—and thus most easily handled by a financial transaction—*IOU customers are real customers of Bonneville*. Except for adjustments under Section 7(b)(2), Exchange consumers should receive essentially equal benefits as preference consumers. Bonneville is now proposing that IOU residential and small-farm customers be excluded from the conservation rate credit (discount) program or bilateral conservation contracts. If this occurs, the IOU customers will therefore see higher rates than otherwise. In effect, they will be receiving lesser quality service than preference consumers. This is clearly unfair to these consumers.

In addition, while Bonneville’s conservation target is based on how much load it serves at Tier 1 rates to its preference customers, it is proposing to count toward the fulfillment of that target conservation that occurs outside this load. BPA’s proposal will count conservation achieved by customers in their Tier 2 loads as well.⁴ The difference is significant—several thousand MWs of Tier 2 load—since it includes both all load growth for twenty years and the loads served by partial requirement customers’ own resources. BPA’s rationale for this was explained at the recent conservation meeting (Sept. 11): BPA’s tiered rate structure would “influence” the utilities to acquire more conservation, so the agency had the right to count it toward its target. Putting that assertion aside, this approach to counting conservation leads to a serious reduction in conservation achievement in BPA’s Tier 1 loads—the load that the agency is using to set its target.

An example will help to explain this. Bonneville has calculated its share of the Council’s conservation target—*based on the proportion of its Tier 1 load compared to total regional load*—as 52 MWs per year. That implies that there is about 52 MWs of cost-effective conservation that should be acquired from Tier 1 loads.⁵ Now assume that utilities acquire 10 MWs from their Tier 2 loads and IOU Exchange loads. By counting those MWs toward its target, BPA will only acquire 42 MWs from its Tier 1 loads, leaving 10MWs of cost-effective conservation on the table.

- BPA’s proposal to determine High Water Marks (HWM) at a future date (2010) produces an unintended consequence of incenting utilities to *increase* their loads between now and then. Bonneville is also proposing that utilities that participate in the agency’s conservation programs can add back to their HWM only 50% of efficiency gains. Their best strategy becomes sitting on their hands when it comes to participating in BPA conservation programs until that date rather than lose part of their valuable 20-year HWM allocation.

The Coalition urges Bonneville to remove this 50% “decrement” in order to keep its programs—and the region’s progress toward meeting the Council’s targets—healthy between now and 2010. While we think there should be no decrement, we can support an alternative of allowing utilities to add back 75% as a compromise. BPA should be working with its

⁴ In the interim period between now and 2011, BPA will also count toward its target conservation acquired through the rate discount in IOU territory.

⁵ It should go without saying—but doesn’t—that this target is considered by the Council not to be a *ceiling*, but instead a *floor*. That is, BPA should really aim higher, rather than minimizing its target, if it really wanted to “assure the Pacific Northwest of an adequate, efficient, economical and reliable power supply,” as the Act requires.

customers to maximize acquisition of all cost effective conservation and avoid a situation where BPA is put in the role of watchdog of utility programs.

To its credit, BPA has pledged to achieve its share of the Council's regional renewables target based on its public power customers' share of regional load growth. While this is a much fairer target—and one must wonder why this definition is not used in setting the efficiency target—BPA has failed to provide much certainty or clear mechanisms for ensuring it is met. In addition, Bonneville has capped its funding of renewables at (a net of) \$21 million per year, rather than pledging to provide whatever funding is needed to meet its target.

The Proposal also effectively limits the formation of new public utilities by denying or delaying the right to Tier 1 power. Neither SOS nor the Coalition, with both public and private utility members, take a position on this issue, in general. (We also do not take a position on the adequacy of the Exchange benefits.) However, in the case of new tribal utilities, we believe the proposal is too restrictive. BPA has both a tribal trust responsibility and obligations under the recently passed Energy Policy Act of 2005 to encourage and support their formation.⁶

The Proposal is also likely to result in a system that is periodically over- and under-built as the many utilities get caught in the business cycles that inevitably occur in competitive commodity markets. While overbuilding wastes the region's money, under-building reduces reliability, raises prices, and threatens the protection of salmon and steelhead. We have seen that when the region is caught shorthanded, fish take a back seat to keeping the lights on and avoiding the purchase of expensive market power. A firm commitment to meet reliability standards, rather than general support for them, will ensure stronger compliance with the fish and wildlife obligations of the Northwest Power Act, while also keeping the lights on.

III. Salmon Restoration Impacts and Update of Business EIS

As the region discusses how the resources of the Columbia River system will be used for the next 20 years, it is imperative that the Proposal ensures the protection and restoration of fish and wildlife. Healthy wild salmon populations provide significant economic benefits to many communities that are as important as low power rates. The sportfishing industry in the Northwest is a \$3.5 billion dollar industry employing over 35,000 people. Tribal communities have relied on abundant salmon stocks for their livelihood for centuries.

In that light, the near-absence of any references to fish in the Proposal is concerning in itself, and we question the assertion in the Introduction that this Proposal will provide greater certainty that BPA will meet its fish and wildlife obligations under law and treaty. Without any details on what that salmon protection plan will entail or any clear link between that plan and this 20 year power deal, all the potential to increase the economic benefits from a vital wild salmon population are at risk. We do, however, support BPA's proposal to reduce Slice customers' flexibility to provide Bonneville with more control over the river.

We would also advise BPA to refrain from attempting to drive a wedge between renewable energy proponents and salmon advocates, as there is simply no need to set up this false dichotomy. It is critical that we can both meet the growing power needs of this

⁶ Energy Policy Act of 2005, Title V, Section 2602 (b)(2)(B), page 528.

region and also maintain the unique character of the Northwest, including healthy rivers and abundant wild salmon and steelhead.

We believe, for instance, that it is disingenuous for BPA to suggest that its wind power options are compromised because fish-survival programs limit the system's capacity. Of course, there are *many* obligations on the hydrosystem that limit its flexibility and no single component should take the full blame. Because even improved hydrosystem operations for salmon, such as increased spill, may prove insufficient to meet BPA's obligations under law and treaty (not to mention expensive), we believe it is essential that BPA consider the one real solution to restore healthy, fishable upriver salmon and steelhead populations: removing the four lower Snake River dams and replacing their power with cost-effective clean energy. In addition to restoring wild salmon populations, this solution would save the millions being spent on ineffective and expensive stopgap measures like juvenile fish transportation and the installation of removable spillway weirs. This solution will save ratepayers and taxpayers money over the 20-year period of this new power deal.

Of course, BPA is obligated to protect and enhance fish and wildlife while producing sufficient power for our region's growing needs in the most cost-effective manner available. And for that reason, having a smart approach to energy production that incorporates renewable energy and conservation measures reduces the demand on the hydropower system and thus lessens the impacts on fish.

Finally, BPA believes that the environmental review provided by the decade-old Business Plan EIS is adequate to cover this Proposal. However, we have not seen an analysis that addresses the following issues:

- If customer utilities are responsible for load growth and they do not acquire all cost-effective energy efficiency and renewables consistent with the Council's Plan, is there an environmental impact (compared to the base alternative used in the Business Plan EIS), and is it considered in the business plan EIS?
- If new resource development is the responsibility of the region's utilities, will long-range planning and adequate resource standards be developed to ensure that in an emergency BPA is not forced to over use the hydrosystem to the detriment of salmon obligations?

The Coalition and SOS disagree with the conclusion reached in Section XV of BPA's proposal -- "the Policy likely would assist BPA in accomplishing these goals [including meeting BPA's legal mandates and avoiding adverse environmental impacts]." We have not seen any environmental comparison of the Proposed Policy, the status quo, or a policy revised as we have recommended. We urge a more thorough review of the EIS or a release of the complete analysis already done.

IV. Tier 2 Products

The Proposal is now fairly general regarding BPA's Tier 2 product offerings. The kickoff meeting to determine Regional Dialogue implementation details on October 24th raised some concerns, however.

BPA's mandate under the Regional Act is to acquire resources consistent with the Council's Power Plan. That Plan calls for meeting all load growth with efficiency and renewables, and possibly an IGCC plant toward the end of the next decade, if needed. BPA's Tier 2 offering should reflect that mandate. Except for some short-term resources or market purchases to integrate renewables, BPA should not provide any Tier 2 products derived from fossil fuels.

At the October 24th meeting, some utilities asked BPA to provide a short-term market-index product, especially if transmission was problematic for non-federal resources. We are sympathetic to their concern, but we do not think it is really appropriate for Bonneville to become a short-term power broker. Simply put, if utilities want Bonneville to be their supplier, they should sign up for a longer-term product that BPA can manage with renewables and efficiency, consistent with the Act.

V. Summary and Recommendations

Taken as a package, the Proposal is risky for consumers and the environment. Only if Bonneville makes some fundamental changes in the Proposal that connect it back to the Regional Act, can it be made acceptable. We propose the following eight changes/additions to the Proposed Policy. We have offered these proposals in detail to BPA numerous times throughout the long development process, so it is not necessary to repeat those details here. We can provide those details if any party would like to see them. In summary, BPA should:

1. Require in BPA's implementing contracts that any utility that takes a low-cost Tier 1 allocation must provide for its own load growth using resources consistent with the Northwest Power Act and the Council's Plan.
2. Redefine "BPA's share" of the Council's efficiency target consistent with how Bonneville defines its share of the renewables target. That is, include all the load *growth* of its customers, not an artificially diminished target reflecting only the share of their *loads* that the agency serves at Tier 1. At the very least, BPA should not count toward meeting its target any conservation achieved outside the load it serves for which it did not pay.
3. Affirmatively commit to acquiring all resources needed for BPA's Tier 2 product and any augmentation necessary to meet Tier 1 loads with resources consistent with the Northwest Power Act and the Council's Plan.
4. Allow Exchanging IOUs to utilize the Conservation & Renewables Rate Discount.
5. Reduce the incentive to increase loads in the interim before high water marks are determined by increasing to at least 75%--best would be 100%--the amount a utility will increase its HWM due to conservation savings acquired, in part or whole, through BPA-funded programs.

6. Provide Tier 1 access to all new Tribal utility loads without unreasonable delay. We suggest no more delay than the conclusion of the next rate case after it qualifies for service.
7. Include an enforceable resource adequacy requirement in its implementing contracts. One mechanism the Coalition has suggested is that Bonneville would act as the “default provider” for any utility not meeting the adequacy requirement. The cost of this service would be charged to the utility.
8. Provide greater specificity regarding how the proposal will fulfill BPA’s obligations to fish and wildlife and will ensure that endangered salmon are protected and restored to healthy, fishable levels.
9. Update the Business Plan EIS or provide a more in-depth analysis of how the current one is adequate for its intended purposes.

VI. Conclusion

Bonneville is proposing a far-reaching 20-year change in the way it relates to its customers. Our overriding concern is that the result for the region be a positive one in terms of future resource choices, energy use, and fish protection and restoration. BPA's commitments to conservation and renewables give us limited comfort of achieving a clean, reliable and affordable power system that is sufficiently protective of endangered salmon. The risks of falling short are great. We have detailed our proposed revisions that would make the Proposal acceptable. The Coalition and SOS have invested tremendous resources in the Regional Dialogue process and we do not come to our position without a great deal of consideration. Thank you for this opportunity to comment.

Comments or questions regarding these comments can be directed to:

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