

**REGIONAL DIALOGUE RENEWABLE FOCUS GROUP
NOTES 11/19/04**

PARTICIPANTS

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Meeting Room

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Introduction

Three items were handed out for later discussion. (A blank matrix showing ideas for the Renewable Rate discount, the FY 2003 CR&D report and the notes from the 11/08/04 Renewable Focus Group meeting).

Roll call was completed, and Elliot who asked if there were any comments/questions remaining from the last meeting opened the meeting.

Angus Duncan began the meeting by questioning what BPA means by “facilitation”, he wanted to know what BPA thought good facilitation would consist of, and noted that he would like to see some [facilitation] occurring on the transmission side.

Eugene Rosalie wanted more discussion on what happens if the Fourmile Hill geothermal project doesn't materialize resulting in additional money in the \$15M renewable fund. He wondered how BPA would make investment decisions and if the customers were going to be involved in that process. There is no apparent process for deciding how BPA uses the \$15M. It is still not clear at what point decisions are made about any excess of that \$15M.

Rachel Shimshak indicated she wants to see up-front a proposed list of projects and programs [going into the rate period]. She would like to see spending prioritized from this list and budget.

Steve Oliver briefly reviewed subjects discussed at the last meeting: The budget, versus direct acquisition.

Elliot Mainzer mentioned that the regional dialogue is a PBL process, but there is overlap with transmission. He has been keeping an archive of comments received on transmission issues; there is a cross-agency renewables team that meets periodically and he has been channeling comments over to the TBL.

Facilitation

Elliot explained that the focus in the foreseeable future is the role of the PBL as a facilitator, promoting the development of renewables in the Northwest. BPA is changing in strategic direction from the large acquisition role we played coming out of the 1000-MW RFP. The chance of another such acquisition without some sort of catastrophic or substantial change in BPA's load-serving obligation is slim. The focus is more on facilitating processes like integration services--post bus-bar costs, transaction costs, inefficiencies in the market or extra costs that can't be internalized by system customers; BPA will step in and try to make those things happen. The firming and shaping service was the classic example of regional renewables facilitation.

Elliot noted that many commented in the regional dialogue that it was inappropriate for BPA to take acquisition completely off the table. There are certainly statutory obligations, and there could be a situation where BPA might purchase and warehouse or market part of the output of a project for customers for a number of years until customers grew into it. That might qualify as either acquisition or facilitation because it is enabling a bigger project to happen than might have occurred otherwise. What comes immediately to mind is potentially buying some transmission, participating in a project, and/or integration services. We want to use this current process [the renewable focus group] to figure out what other options might be available. Most everything BPA is suggesting has been structured toward facilitation because we think our customers will have to buy to meet their own loads if we move towards allocation [rather than BPA purchasing for them]. However, some customers may ask us to buy on their behalf and BPA will be there to deploy some system flexibility and other capabilities to help consummate the transactions.

Steve Oliver doesn't see much room or regional appetite to do more than basically what we are already talking about [a commitment to something akin to the C&RD discount program and the \$15M net management target]. But if people came up with some ideas with very high regional leverage value and the costs totaled say \$25M rather than \$21M, BPA may consider them, while paying close attention to relative value and cost.

The regional dialogue process and BPA's own process instruct us that BPA should not be in the marginal resource supply business outside of the existing level of resources that are already online; rather, we should be helping to set up mechanisms for the region [not BPA] to supply on the margin. We may or may not need limited amounts of

incremental energy to meet load growth. There is much uncertainty surrounding allocation and customer requests for BPA to limit acquisition. We are also not sure if we will employ Tiered rates. If we pursue Tiered rates there could be either mechanisms or amounts reaching a few hundred MW or more that parties would agree should be purchased and melded in as Tier II. If we needed to acquire for Tier II, we have a statutory directive for preference toward renewables.

Steve went on to comment on Eugene's question: There is potential for movement relative to long-run marginal cost assumptions as well as what happens with the geothermal project. Both of these affect BPA's appetite for how much expense we take on regarding renewable related R&D or how much, if any below-cost or discounted facilitation products we offer.

Rather than listing everything and looking at costs, Steve indicated that he would rather use this time to discuss what would provide the most leverage and the most value to the region since it appears there is not much appetite for moving past historical levels of expenditures [\$15M/year]. As a side note, Steve mentioned that BPA has actually been under-spending the \$15M/year, [largely because of uncertainty surrounding the Fourmile Hill geothermal project]. We don't know if there is room to implement new suggestions and go beyond what we are spending now. This is a policy question.

Angus stated that the region's appetite [for renewables] will always exceed the supply of available resources, so waiting to see how much of the \$15/\$6M is needed seems nonsensical. At least that much should definitely be available. Steve said the \$6M currently associated with the renewable portion of the C&RD is not currently a rate issue.

Steve went on to say that more than \$6M could hypothetically be included in the base rates if the targeted investment(s) produced revenues, which offset expenditures (e.g. high-value energy or successful marketing of Green Tags). How much money is available for the renewable program depends on whether we choose to invest in things that produce energy [thus we can recover a portion of the costs] or are just grant-type expenditures. It also depends on the price of BPA's facilitation services, if the services are priced at cost, then it would be a break even business proposition that we think would be positive for the development of renewables, and maybe other resources as well, and would result in no net cost relative to the renewable budget. In response to Rachel, Steve reiterated that nothing is off the table.

Facilitation versus Acquisition

Eugene, responding to Elliot's comment about warehousing resources, was still unclear about BPA's acquisition role. Steve answered with two examples to show the difference between acquisition and facilitation. First, a group of public customers wants to develop a 75 MW wind project, (25 average MW of energy). There is 20 aMW of utility interest in the project. If they develop the project to its full capacity (25 aMW), the cost at the bus bar, is \$40 per MWh; however, if they only develop 20 aMW, the bus bar price increases to \$48/MWh. The utility group may not be interested in the project

with the price at \$48, but look at it favorably with a price of \$40/MWh. BPA could acquire 5aMW and bring the cost down for all participating utilities.

Assume utility load growth over 5 years was 5 aMW. If BPA invested right now to get the price down to \$40, BPA could let the utilities grow into the project as their load grows; with a commitment to take it all at the end of five years even if the load growth doesn't appear [customer call right to get it back, with a BPA put right]. That size and kind of deal might be viewed as facilitation.

Then, consider a project the size of Stateline, with only 20 or 25 percent interest from public power and investor-owned utilities in the region with much of the energy to go outside the region. BPA, to make this go, needs to buy 50 percent of it and hold onto it for 15 years. That's clearly not the type of facilitation we had in mind. We are thinking more along the lines of helping groups of PNW customers aggregate to get over the incremental expenses and economy of scale and develop quick and small amounts, ultimately relieves the Administer of his obligation to serve. But we have not yet tried as a group to write clear criteria.

Rachel wondered what needs utilities have, relative to renewables, which BPA could influence or solve. Integration, the firming and shaping product, was initially important—however, utilities who use that product are paying the price and then some. The integration services do not increase costs to other customers. If there are utilities that are not doing renewables, but would like to, what's keeping them from doing it and what could BPA do to facilitate it?

Roundtable Commentary

Geoff Carr said that if the move is to an allocated world, he wants his group and customers not to be decremented if they decide to develop a renewable resource beforehand. He likes the way existing contracts deal with renewables, allowing customers to bring renewables in and out quickly. [Referring to the 200 aMW policy exemption from 5(b)9(c)]

Steve clarified that the amount is up to 200 aMW collectively across all customers. The existing contracts have a provision that allows for renewables to be developed and then moved off load while retaining customer right to lowest cost preference rates. This is so that the net requirement can be reinstated at the end of the contract period, based on what the utilities load is without the addition of the renewable. Steve didn't know how much of that had occurred, but Tom Osborn said that Seattle City Light buys 175 MW.

Steve further explained that customers can acquire up to 200 aMW, apply that to load, and then at some point in the future can withdraw that from load and still have their net requirements met by BPA without getting decremented. That is 200 aMW total, first come first served, for the contract period.

Geoff said he'd like to see the size of that increased and also retain the flexibility of a 60-day notice for implementation. Steve explained that the time period involved was late in the contract design with the notion that since BPA was at the time needing acquisition. If someone else wanted to develop renewables and bring them on with short notice, it would mean BPA had serious incentive to encourage it. But once a flat amount of power being sold is established, if someone can move a resource on and off and then say they want to keep the federal energy anyway, that allows them to arbitrage federal power--turn it into surplus and sell it. So he understands the issues of decrementation and flexibility, but the ability to unrestrictedly move a resource on and off doesn't work. Angus commented that there is clearly some risk shifting, but that is not necessarily bad if BPA can facilitate the development of renewables while bounding the exposure and managing it.

Annick Chaliier commented that some of her contacts had experienced difficulty negotiating with BPA over wind integration and were leery of further BPA facilitation, but she did not know the details and promised to find them out. She also questioned fish constraints relative to firming and shaping of wind power and concern over how transmission costs are covered. Elliot elaborated that necessary costs for maintaining flows for fish were priced into the integration services. Steve added that no service would infringe on nonpower operations if they are BiOp oriented.

Eugene sees BPA providing a role in R&D on new technologies, particularly fuel cells, and distributed generation-type renewables rather than large projects such as wind and geothermal. Steve responded to concerns Eugene had in the previous meeting, after conversing with Mike Weedall. Conservation will still include small, distributed generation on the customer side of the meter that, if developed, will fall under the conservation demand side. Or it might be on the supply side, like a small biomass, maybe in the 2-MW range.

Angus commented that it should not be a situation where all that could be done were relatively small projects, some with less than promising futures, if there are better opportunities with larger projects or technologies that have an apparent maturation curve. It would be a mistake to preclude those on the basis of a small average MW cap.

Angus also explained that BPA could do strategic remarketing as one of our facilitation actions. BPA could assist in remarketing the energy from utility projects if those customers could find people who wanted the power. BPA could facilitate by moving the energy from point a to point b. That tool could stretch the dollars further because BPA would not be directly acquiring.

Alan Zelenka favors retaining the C&RD flexibility to be able to shift between the two while maintaining the backstop of the \$6M. Also, the anchor tenancy role that BPA can play is important. Medium-size utilities can't get the economy of scale of a larger project, so having access to a 15-MW project versus a 100-MW project means a huge difference in cost. BPA could buy into the project and then have people grow into it using the aggregation function. He'd also maintain and enhance the integration product

by coming up with products for utilities that are not doing their own scheduling to deal with the generation imbalance in scheduling renewables. Steve said it can be done, but it's very messy.

Alan also commented on the need to smooth the issues between transmission and renewables and the valuable role BPA plays in renewable R&D, which benefits everyone.

Tom O'Connor emphasized the importance of maintaining something like the existing C&RD mechanism with flexibility between conservation and renewables for small-requirements utilities. Being able to purchase an EPP product and have it eligible for C&RD credit is tailor made for a small-requirements customer. He thinks most people doing the R side of C&RD are also spending over the Conservation side of their credit anyway, so and it is not like taking from Conservation. For partial requirements, the issue is facilitating transmission. Another issue is GTA; Ashland, for example is a utility with a long renewables tradition but they cannot economically purchase nonfederal power [because they can't get it to their service territory].

Thad Roth hopes for a continuation of EPP power through the '07 to '11 period. They need support from BPA to make their green power inexpensive and easy to do so they can focus on marketing. Steve said BPA has offered help with utilities in marketing renewable products, packages and services. Should BPA do more of that in local markets, or leave that to the local utilities? Thad said Deb has been very helpful in the process. But he wonders if EPP is a product BPA will continue to market separately or will it become a melded product? They'd like to retain their choice.

Tom Bailor mentioned integration between PBL and TBL as a concern. Getting transmission to the resource is a problem. Sustainability is an issue of sovereignty to the tribes. Shaping and firming products to the tribes is important. John Cox says the tribes want to become commercial suppliers and are concerned about conservation and renewables incentives. Are other renewables, such as wood, given the same incentives? Wood plays a large role for the tribes, maybe more in the future. Could a wood-pellet mill be facilitated? Monitoring and resource assessment are R&D pieces the tribe could use. The tribes may be the source of large-scale projects in the future.

Ken Sugden agrees that the C&RD is the easiest way to bring renewables into their system. Thad noted that Columbia River PUD would not be using C&RD to subsidize their renewables program; they see it as competing with their conservation investments.

Rachel emphasized education, using BPA's experience to coordinate with those less experienced in integrating renewables; including and integrating TBL people into the discussion; and providing a renewables inventory that would help keep BPA current on the issues and be able to respond quickly to a variety of needs.

Tom O'Conner, as with Geoff, wants assurance that if BPA moves to a tiered or allocated structure that requirements customers don't end up being a cost sump for this

pool; also, he would like BPA to develop a mechanism that can respond to the very small increments of load growth which requirements customers will have.

Rachel sees inventory as providing that function: Over time, different customer needs change and they pay for them, coming in, going out. It's not a big risk and is available when needed.

Annick understands that transmission directly to the wind projects is paid for by the wind-product developers, but wonders about imbalances to the system wind could create and the congestion management costs would be placed on the whole grid. Rachel said that hasn't happened so far, but further discussion is needed to clarify the transmission Business Line's role. Elliot said there are currently a number of initiatives at the TBL already, with different forums and reviews, their rate case, and new products development. Geoff mentioned the new conditional firm TBL product; it would be good to have a representative from the TBL present during these meetings. Elliot said that it he would contact Terrin Pearson.

Rachel commented that the system should be able to accommodate a variety of different resources that learning to accommodate new resources with different qualities is an educational and evolutionary process.

Draft Matrix

Elliot then focused attention on the draft matrix and discussions with the Conservation group. The matrix focus on the \$6M currently being spent on the C&RD. The basic conundrum is to how to preserve the basic idea behind the existing system and how to make the best use of the \$6M. Steve discussed Conservation's budget concerns. The conservation group has no problem with anyone signing up for both Conservation and renewable rate discounts. But they need to meet the new targets coming out of the Council. The conservation group is concerned about setting up a program that offers the ability to slide in or out of one or the other [in and out of conservation and renewable discount program] in terms of planning on how they will meet their requirement to supply BPA's portion of the regional conservation obligation.

Tom O'Connor said uncertainty is one question, but the total amount of dollars is another; he thought the conservation people wanted a total amount of dollars, period. Steve explained that \$40M for conservation was set. If the \$6M for renewables were added to the \$40M for conservation, total spending on conservation and renewables would be \$46M. The conservation group indicated that they need clear, defined access to all the conservation dollars rather than the uncertainty of the amount that would be spent on renewables. Tom said that means the conservation group wants a half-mill rate credit only for conservation. If there were to be a renewable rate credit, it would have to be some additional amount on top of the half-mill. Steve agreed it would be an increment, an increase--a small one. He added that Conservation has several other programs besides the C&RD, like the Direct Acquisition and others. Rachel said that means you would need more dollars in the whole program to reach your goals. Eugene agreed, adding that they were not willing to commit more money but said they would achieve their goals through more efficiency, more bang for the buck. Rachel continued: With the existing

system there is \$40M or a half-mill, and any utility could spend it either all on conservation or all on renewables or some combination of both. But if the whole pot becomes conservation, BPA can sever off the \$6M backstop commitment and renewables lose the opportunity to spend more. Then, the policy is limiting.

Elliot expressed the probability that something like the status quo would be maintained, and that represents the first option box in the matrix. The headings across the matrix express desirable or undesirable aspects of each option. It was noted that the term "established" in the second bullet at the top of the matrix will be changed to "recommended" or "suggested." Homework is to go through the criteria and add, subtract options and comment as needed.

Eugene wondered if, in the conservation option, we are looking at giving people the choice of a rate discount or just meeting their targets based on kWh. Rachel questioned whether a utility would bypass an opportunity to use a discount if it was doing the conservation and getting the kWh. Would there be a credit for losing customers and reducing kWh? More clarification is needed.

Annick commented that there are only some customers accessing the renewables part of the discount, and all will likely not do it if they are not doing it now. Then all would have this increase in their rates but only some would actually get the discount and the rest of the money comes back to BPA. She wondered if there were a number of people vying for that pot and only those who make it get the discount? The idea, Elliot answered, is that everyone could participate in the renewables discount with the same kind of mechanism where utilities would have a pro rata allocation of that responsibility.

Steve noted, that the way it currently works is there is an artificial rate increase followed by a discount, so it creates a liability for the utilities and for BPA. If you do it [invest in renewables] you get the renewable rate discount. If you took the rate discount but didn't actually invest in renewables, at some later point BPA would have to collect the dollars and do something with them. Everyone either gets the discount or pays for it. Elliot commented that we could structure it just like the C&RD program but with no conservation; everyone has an obligation and an incentive to participate in this program. Their obligation is a function of load share in the same way that the current C&RD program is allocated. There is little leverage opportunity; it is proportional to your load. Small utilities would have a tiny obligation and also a tiny opportunity. It's the current model but not a favored option.

Next option on the matrix, a BPA-administered renewable fund. There could be two ways of doing this, one more equitable than the other. The \$6M is a small amount of money when spread over all our customers. BPA could set up a few different renewables funds that individual customers could elect to participate in, like a mutual fund. People could elect to participate in one of those options. It would be a way to aggregate dollars and get a little more bang for the buck and avoid the problem of small obligations and small opportunities. Another way would be that BPA would collect the \$6M and disperse it through application, on a first come first served basis.

As Steve described, you might collect a tenth of a mill from everybody—akin to taxing them the \$6M—making it available on a first come first served basis would create incentive for people to bring things in quickly and be assertive. There would be criteria for allocation, but it would be collected from everybody and only those who were actually in the customer group that was going for renewable projects would get it. This idea is different than Elliot's mutual fund suggestion. These are probably separate ideas that need to be presented separately in the matrix. The problem with Elliot's mutual fund idea is that it would probably result in BPA performing as a backstop if utilities didn't buy into it. In addition we still want to provide renewable incentives for customers [to do their own projects].

Eugene suggested a hybrid: In conjunction with a rate discount, people with a small amount could go to Angus and buy some Green Tags or invest in something else.

Adding \$6M to our \$15M policy benchmark, Elliot continued, is another option—this would result in no renewable discount [and potentially more direct BPA spending], if we ultimately have the appetite for it. The probability of spending it all goes down in this option, depending on what is going on and system allocation.

Finally, the option of billing credits. Al Ingram noted that the Power Act gives BPA the authority to provide certain credits--a process where a customer who wants to take a resource to load receives the difference between the alternative costs of BPA and the PF rate. There is flexibility in terms of finding a resource. It is the way outlined in the Power Act to identify customer resources for a period of time and find a way for BPA to provide an incentive for those projects with a rate mechanism to distribute the costs. It has not worked well in the past. Steve noted that this is not a rate discount but rather a targeted refund or rebate for investment in renewable generation.

Alan commented that his utility is one of the few that actually have a billing credit contract in operation, since 1991, and that it works really well as a mechanism to develop resources. The problem is, in an allocated world, what happens if BPA is not doing acquisitions?

Steve said people should be free to modify the matrix as necessary but be ready to comment by the next meeting. If e-mailing please submit them in time to be compiled. Elliot suggested ranking the options from best to worst. Comment on the reasons for your choices.

Note: \$60M is roughly a dollar per MWh or a mill on the rate, so a rough rule of thumb is that \$6M represents a tenth of a mill.