DEPARTMENT OF ENERGY

Bonneville Power Administration

Bonneville Power Administration's Policy for Power Supply Role for Fiscal Years 2007–2011

AGENCY: Bonneville Power Administration (BPA), Department of Energy.

ACTION: Notice of final policy.

SUMMARY: This notice announces BPA's final policy regarding how the agency intends to market power and distribute the costs and benefits of the Federal Columbia River Power System (FCRPS) in the Pacific Northwest for fiscal years (FY) 2007–2011. This policy clarifies BPA's obligation to supply power to its regional power customers and guides BPA in developing and establishing its firm power rates in the future.

ADDRESSES: This policy and the Administrator's record of decision (ROD) are available on BPA's Web site at *http://www.bpa.gov/power/regionaldialogue.* Copies are also available by contacting BPA's Public Information Center at (800) 622–4520.

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SUPPLEMENTARY INFORMATION:

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I. Scope of Regional Dialogue

The Regional Dialogue process began in April 2002 when a group of BPA's Pacific Northwest electric utility customers submitted a ''joint customer proposal'' to BPA that addressed both near- and long-term contract and rate issues. The proposal focused on how BPA would market Federal power and distribute the costs and benefits of the FCRPS under 20-year power sales contracts as a means to settle litigation on the Residential Exchange Program Settlement Agreement signed in 2000. It was believed that both near- and long-term issues could be resolved before BPA's next rate period in October 2006. Since then, BPA, the Northwest Power and Conservation Council (Council), customers, and other interested parties have continued to work on both near- and long-term issues. Considering the depth and complexity of these issues, BPA concluded it was not practical to resolve all issues before the start of the next rate period.

BPA's current firm power rates expire at the end of FY 2006. Nearly all of BPA's regional power sales contracts continue through FY 2011. BPA believes its first priority is to resolve policy issues that likely will influence the last 5 years of those contracts, the next rate case, and decisions to be made by customers concerning BPA power service during that period.

By February 2004, BPA decided to address the issues in two phases. The first phase of the Regional Dialogue addresses issues that must be resolved in order to replace power rates that will expire in September 2006. These decisions will create certainty for the FY 2007–2011 period and set the stage for the long-term phase of the Regional Dialogue that follows. The second phase will address issues that are critical to determine how BPA in the longer term will market Federal power and distribute the costs and benefits of the FCRPS for 20 years, with the objective of implementing new 20-year contracts well before current power contracts expire in FY 2011. The process and schedule for resolving these issues is included in section IV.B.

The Council has played an active role in helping to plan and guide BPA's development of the near-term Regional Dialogue policy direction, as well as in setting the stage for developing the long-term policy direction. BPA and the Council agree on the overall goals of the Regional Dialogue process to determine BPA's long-term role in providing power to regional customers at the lowest cost-based rates and capturing that role in long-term contracts and rates as soon as possible to create a durable solution. Underlying the Regional Dialogue's focus on addressing BPA's long-term power supply role is the need to assess and understand the impact the 2000–2001 West Coast electricity crisis has had on BPA and its customers.

II. Link to FY 2007–2011 Strategic Direction

The financial impacts of the West Coast electricity crisis of 2000–2001 led many utilities to examine their policies and approaches to their power supply. BPA is no exception. Over the past year, BPA has invested significant time and effort in strategic planning directly related to its power supply.

This re-examination of BPA's mission and core values has, along with comments and advice from the Council, customers, constituents, tribes, and other regional stakeholders, helped inform the agency's approach to the Regional Dialogue.

A. Report to the Region

In early 2003, BPA initiated a detailed examination of the events that began in 2000 that led to the significant rate increases and deterioration of BPA's financial condition. On April 18, 2003, BPA released a Report to the Region that included lessons the agency learned, with the intention of translating those lessons into future actions.

Among a number of other lessons, the report noted that the level of BPA's costs and risks are driven heavily by the load obligations BPA assumes under contracts with customers. Meeting those load obligations was a large driver of BPA's cost and rate levels. The report pointed out that the amount of risk (market volatility and uncertainty) to be managed in the whole region's power system has grown substantially and the fraction of that risk that BPA can absorb has gotten smaller. The report also noted that BPA must avoid the need to acquire large amounts of power on short notice to meet customer load demand.

This policy has been developed specifically with those lessons in mind, particularly to resolve the agency's customer load service uncertainty as soon as possible and provide customers with the power supply clarity they need.

B. Strategic Direction

The Report to the Region highlighted the need for BPA to have a clear and steady strategy and manage to clear objectives. In response, the agency devoted a significant amount of time to clarifying its strategic direction.

BPA's strategic direction establishes the agency's most important objectives and the actions that will help it manage to these objectives. The strategic direction calls on BPA to advance the Pacific Northwest's future leadership in four core values—high reliability, low rates consistent with sound business principles, responsible environmental stewardship, and clear accountability to the region.

It should come as no surprise that the subjects covered in the Regional Dialogue are well represented in the agency's strategic direction, particularly with regard to BPA's role as a low-cost provider and the need for clear regional accountability. The strategic direction guiding this policy includes:

1. Regional Infrastructure Development: BPA policies encourage regional actions that ensure adequate, efficient, and reliable transmission and power service.

2. Conservation and Renewables: Development of all cost-effective energy efficiency in the loads BPA serves, facilitation of regional renewable resources, and adoption of cost-effective nonconstruction alternatives to transmission expansion.

3. Benefits to Residential and Small-Farm Consumers of Investor-Owned Utilities (IOUs): The post-2011 benefit that BPA provides to IOUs for their residential and small-farm consumers is equitable based on the Northwest Power Act.

4. Rates: BPA's lowest firm power rates to public preference customers reflect the cost of the undiluted Federal Base System (FBS), are below market for comparable products, and are kept low through achievement of BPA's objectives at the lowest practical cost.

5. Service to Direct-Service Industrial Customers (DSIs): Explore a post-2006 DSI service option with a known and capped value.

6. Regional Stakeholder Satisfaction: Customer, constituent, and tribal satisfaction, trust, and confidence meet targeted levels.

7. Management: Collaborative customer/constituent/tribal relationships are supported by managing to clear long-term objectives with reliable results.

8. Cost Recovery: Consistent cost recovery over time.

9. Ratepayer and Taxpayer Interests: FCRPS assets are managed to protect ratepayer and taxpayer interests for the long term.

10. Best Practices: Best practices (with emphasis on cost performance and simplicity) are obtained in key systems and processes.

11. Risk: Risks are managed within acceptable bounds.

Additional principles guiding the Regional Dialogue are:

12. Legal Criteria: Approaches or policy options should not require legislative change and should minimize legal risk.

13. Treasury Payment: BPA will plan to achieve and maintain a Treasury payment probability (TPP) that is the equivalent of a 95 percent probability for a 2-year period and an 88 percent probability for a 5-year period. Options for achieving this goal include, but are not limited to, cost recovery adjustment clauses (CRACs) and planned net revenue for risk.

III. An Integrated Strategy for FY 2007–2011

BPA's policy decisions on each of the issues raised in its July proposal are given below. The reasoning behind each decision, including how BPA addressed public comment in making the decision, is contained in the record of decision (ROD). Where decisions are required to be made in a rate case, the policies articulated here will guide BPA's initial rate case proposal.

A. FY 2007–2011 Rights to Lowest-Cost Priority Firm (PF) Rate

BPA will apply the lowest-cost PF rates to its public agency customers whose contracts contain the lowest-cost PF rate guarantee throughout the remaining term of the Subscription power sales contracts.

B. Tiered Rates

BPA will exclude a tiered PF rate proposal applicable to firm power load requirements sales to public agency customers from its FY 2007 initial rate case proposal. Tiered rates will be considered as part of an integrated long-term contract and rate solution that will implement the long-term Regional Dialogue policy of limiting BPA sales of firm power to its Pacific Northwest customers' firm requirements loads at its lowest-cost rates to approximately the firm capability of the existing Federal system.

C. Term of the Next Rate Period

BPA will limit the duration of the next rate period to three years, from FY 2007 through FY 2009. This will allow BPA to set rates lower than would be needed for a five-year rate period, all else being equal. In addition, a shorter rate period reduces the need for rate adjustment mechanisms such as the current CRACs. BPA plans to conduct a separate rate case to ensure new rates are in place when new contracts take affect. Depending on decisions yet-to-be made, this could result in BPA offering two sets of rates through FY 2011 (one for Subscription contract holders and one for Regional Dialogue contract holders). An additional rate period of 2 years will run from FY 2010 through FY 2011.

D. Service to Public Agency Customers With Expiring Five-Year Purchase Commitments That Do Not Contain Lowest PF Rate Guarantee through FY 2011

BPA will offer all of its public agency customers whose contracts expire on September 30, 2006, and do not contain a guarantee of the lowest cost-based PF rates beyond FY 2006 either an amendment to extend the term of their existing contracts through September 30, 2011, or a new contract reflecting a product listed in Section III.F., below, that will expire on September 30, 2011. The customers' net requirements will be calculated consistent with their existing contract or prior to execution of a new contract consistent with section 5(b)(1) of the Northwest Power Act and BPA's Section 5(b)/9(c) Policy. As part of a contract amendment or new contract offer, BPA also will offer language that guarantees the lowest cost-based PF rates (except for New Large Single Loads (NLSL)) through FY 2011.

BPA will offer all of its public agency customers whose contracts expire on September 30, 2011, and contain either a 5-year PF off-ramp or on-ramp option that expires on September 30, 2006, an amendment to cancel their respective PF off-ramp options early or exercise on-ramp options early. The offer also will include language that guarantees the lowest cost-based PF rates (except NLSL) through FY 2011. The customers' net requirements will be calculated consistent with their existing contracts.

Public agency customers with either the expiring 5-year contracts or the expiring 5-year ramp options will have a 60-to-90-day period, specified by BPA, in which to accept BPA's offer. The offer will expire no later than June 30, 2005.

Public agency customers that do not accept BPA's offer during the prescribed time frame will not be eligible to receive the lowest cost-based PF rates guarantee and will be subject to a Targeted Adjustment Charge (TAC) or its successor, as appropriate, beginning in FY 2007.

BPA had proposed to recalculate the net requirements of customers with expiring 5-year contracts or ramp options and limit sales at the lowest-cost rate to their recalculated net requirements. All but one of such customers have full or partial requirements contracts which automatically limit their lowest-cost service to their actual net requirements. The remaining customer has a contract which, upon review, does not allow BPA to recalculate its net requirements and limit its lowest-cost rate deliveries to the recalculated amount. BPA's strong view is that limiting customers to the amount of lowest-cost power they actually need to meet their net requirements is most consistent with BPA's broader decision to limit its total sales at its lowest-cost rates. However, BPA has decided not to limit this customer to its recalculated net requirements because this is not consistent with the existing contract with that customer.

E. Service to New Public Agency Utilities and Annexed Investor-Owned Utility (IOU) Loads

New Public Agency Utilities: To be eligible to purchase firm power at the lowest-cost PF rates during the FY 2007–2009 period, an entity that forms a new public agency utility must request service under section 5(b)(1) of the Northwest Power Act, meet BPA's Standards for Service, and execute a power sales contract with BPA prior to

June 30, 2005, to take power deliveries on or before October 1, 2006. An exception to meeting the June 30, 2005, date is made for new small public agency utilities with an individual load of 10 average megawatts (aMW) or less, and all of these customers are not to exceed 30 aMW of load service in total. Such new small public utilities have until January 1, 2006, to request service under section 5(b)(1) of the Northwest Power Act, meet BPA's Standards for Service, and execute a power sales contract with BPA to begin taking power service on or before October 1, 2006.

New public agency utilities that meet BPA's Standards for Service and request firm power service from BPA after June 30, 2005, or January 1, 2006, in the case of small new public utilities, will be served at the lowest-cost PF rate plus a charge or rate that covers any incremental costs incurred by BPA to serve the new public agency's load. The charge will be similar to the current TAC or successor rate and will be applicable for the rate period that begins in FY 2007.

Annexed IOU Loads: Consistent with existing contract terms and conditions, in the FY 2007–2009 period, if a public agency customer requests firm power service for load that is annexed from an IOU's service area, and that contains residential or small-farm load that was receiving residential exchange benefits from the IOU under Subscription Settlement Agreements, the public agency customer will receive a prorated share of such benefits. These benefits are provided in the form of an aMW amount of load that is exempt from any incremental-cost charge or rate applicable to the public agency customer's load service. Such treatment will apply regardless of whether the annexing public agency customer is a new or existing customer.

BPA will propose in its initial rate case proposal that power service for annexed IOU load that a public agency customer requests after June 30, 2005, will be subject to a TAC or its successor, as appropriate, beginning in FY 2007.

The above policy on annexed load of IOUs does not apply to public agency customers' mergers or to one public agency annexing another public agency's load. BPA will propose in its initial rate case proposal that it will continue to serve load annexed (excluding NLSL) from a public utility customer by another public utility customer at the lowest-cost PF rate for the FY 2007–2011 period if such load was previously receiving such service.

F. Product Availability

Products for Customers Whose Contracts Expire in FY 2006 or Are New Public Agency Customers: Any new public agency customer or customer whose contract expires in FY 2006 that executes a new contract for service through September 30, 2011, may select from any of the following core requirement products: Full Requirements Service, Simple Partial Requirements Service, Partial Requirements Service with Dedicated Resources, or Block Service (with the optional feature of Shaping Capacity). The terms of the contract will be consistent with the terms described in sections III.D. and III.E. above. BPA is not offering Complex Partial (Factoring), Block with Factoring, or the Slice product to these customers.

Product Switching or Changing the Allocation of Products Currently Purchased by Customers with Contracts that Expire in FY 2011: BPA will not offer contract amendments that would allow changes in the power products and services purchased by 10-year Subscription contract holders, including, but not limited to, changes that would increase the total Slice megawatts currently sold by BPA.

Acquisition of Non-Federal Resources to Reduce Net Requirements by Public Agency Customers with Contracts that Expire in Either FY 2006 or FY 2011: BPA will consider, on a case-by-case basis, requests from a customer that purchases a load-following product to add non-Federal resources to their existing Subscription contract declarations but only if those additions reduce BPA's FY 2007–2011 load-serving obligation without increasing costs or risks for other customers. BPA will make such a determination at the time a customer makes its request. In doing so, BPA will also consider reclassifying the customer's load-following contract (*e.g.,* full service to simple partial), if necessary.

G. Service to Direct-Service Industries (DSIs)

BPA has determined that it will provide eligible Pacific Northwest DSIs some level of Federal power service benefits, at a known quantity and capped cost, in the FY 2007–2011 period. While no final decision regarding the actual level of service benefits to be provided is being made at this time, it is anticipated that service will be at a substantially reduced level compared to the level contracted for in the current FY 2002–2006 rate period. BPA wishes to further discuss the level of the DSI service benefit, and criteria for eligibility, with PNW regional interests before making final policies or decisions on those issues. In addition, BPA is not making a final decision at this time regarding the mechanism or mechanisms BPA will use to provide these service benefits.

BPA will establish a regional process to take further comment from interested parties regarding the level of service benefits to be provided and the eligibility criteria that should be used to determine whether a DSI will qualify for these service benefits. This regional process will provide opportunities for written comments and will include one or more noticed meetings. As part of this process, BPA will issue a letter shortly establishing this regional process and describing a BPA proposal with respect to the level of benefits and eligibility criteria.

Following the conclusion of the DSI comment period, BPA intends to issue a supplement to the Regional Dialogue ROD for this policy in which BPA will issue policies and decisions regarding the level of DSI service benefits to be offered and eligibility criteria.

Subsequently, BPA will work during the summer of 2005 to develop the contractual mechanism or mechanisms that should be used to provide the DSI service benefits. These mechanisms, and BPA's proposal on the DSIs that it believes meet the eligibility criteria and should be offered service, will be shared with the region for review and comment. BPA will attempt to make final decisions regarding the contract mechanisms and qualifying DSIs in the fall of 2005, subject to any decision that must be made in a rate case.

H. Service to New Large Single Loads (NLSL)

Transfer of DSI Load to Local Utility Service in 9.9 aMW Increments: Any DSI production facility load (Contract Demand) formerly served at the IP rate that transfers to local utility service will be an NLSL and will be subject to the New Resources (NR) rate if served with Federal power as firm requirements load under the utility's Northwest Power Act section 5(b)(1) contract unless the load:

(1) Qualifies for the renewables and on-site cogeneration option described below; or

(2) Was a new production load that (i) was separable from the DSIs 1981 contract demand; (ii) new plant added after November 16, 1992; and (iii) could have qualified for BPA PF service from a local public utility at the time under BPA's November 16, 1992, New Large Single Load Treatment of Utility Service to Direct Service Industry Expansions (Atochem) Record of Decision. BPA is

aware of a single plant at the Port Townsend Paper Company, an approximately 3 aMW Old Corrugated Cardboard recycle facility, that was eligible for utility service in 1996 when it was completed but was not served by the local utility under BPA's Atochem policy.

This policy does not preclude BPA from selling surplus firm power consistent with section 5(f) of the Northwest Power Act to utility customers at a section 7(f) rate to serve former DSI load.

Renewables and On-site Cogeneration Option Under the NLSL Policy: In order to further promote the development and use of renewable resources and on-site cogeneration in the region, BPA will provide an option to a consumer with a single large load whose load would otherwise be an NLSL eligible for service with Federal power purchased at BPA's NR rate but for the application of renewable and on-site cogeneration resources to reduce the load to less than 10 aMW. This option will be available to consumers with single large loads at facilities that are otherwise NLSLs, including existing NLSLs, former DSI loads, new consumer loads, increases in existing loads that exceed 10 aMW in a 12-month period, and consumer loads changing service from one utility supplier to another utility.

For existing NLSLs served with dedicated NLSL resources, this option does not give BPA's consent for removal of any resource dedicated to the NLSL. BPA's section 5(b)/9(c) Policy of May 2000 requires resources that are dedicated to serving regional load, including NLSLs, to continue to remain dedicated to such service. Consistent with the 5(b)/9(c) policy, this policy does not require BPA to give consent to remove a resource or agree to amend its power sales contracts for a resource dedicated to serving an NLSL.

If a consumer directly provides on-site cogeneration or acquires a regional renewable resource with an associated transmission path to its load to serve all or a portion of a load associated with a facility that is otherwise an NLSL and if the consumer's remaining new load or load increase placed on the local utility is reduced to 9.9 aMW or less, then that 9.9 aMW load served by the utility is served at the PF rate. A consumer's purchase of a renewable resource for purposes of this renewable resource and on-site cogeneration option must be in compliance with applicable state law.

The on-site cogeneration or renewable resource must be continuously applied to the consumer's load. If the end-use consumer or the serving utility on behalf of the end-use consumer at any time sells, discontinues, displaces, or removes a cogeneration resource or the renewable resource or portion thereof from service to the end-use consumer's load at the facility, then all the load or the increase in load at the facility is an NLSL served at the NR rate or another 7(f) rate designed to recover BPA's cost for covering such load, whichever is greater.

If the facility's load ever exceeds the sum of the renewable resource, any added renewable resource(s), any on-site cogeneration resource amount, and the 9.9 aMW, then such amount of load served by BPA is an NLSL and is eligible for service at the NR rate.

I. Service to Residential and Small-Farm Consumers of Investor-Owned Utilities (IOUs)

BPA's Subscription contracts with the region's six IOUs require the agency to provide 2,200 aMW of power or financial benefits to the residential and small-farm consumers of these customers during FY 2007–2011. BPA recently signed agreements with all six regional IOUs that provide certainty in the amount and manner that benefits will be provided to their residential and small-farm consumers under their Subscription contracts. These agreements provide certainty by defining benefits as financial payments, not power deliveries, defining a mark-to-market methodology that uses an independent market price forecast in calculating the financial benefits and establishing a floor of $100 million and a cap of $300 million per year for these financial benefits.

BPA expects this approach will successfully implement the Subscription contracts. However, these agreements are under legal challenge. Since a fundamental goal of this Regional Dialogue policy is clarification of BPA and customer load obligations for the FY 2007–2011 period, BPA is clarifying how it will proceed if the new agreements are set aside.

In the event a court sets aside the new agreements and amendments but leaves the underlying Subscription contracts in place, BPA is providing the IOUs a contingent notice that BPA will provide financial benefits, not power benefits, during FY 2007–2011 under those contracts. In such an event, the financial benefits will continue to be based, in part, on a forecast of the market price of power developed in a BPA power rate case. If the Subscription contracts are successfully challenged in court, the agency will act consistent with the court's ruling in negotiating new contracts to provide power or financial benefits to the residential and small-farm consumers of IOUs under the Northwest Power Act.

J. Conservation Resources

While there has been much discussion of how conservation development might be regionally structured for the post-2006 time frame, BPA has not yet determined what the specific terms and conditions will be.

BPA has adopted five principles to guide the full development of BPA's conservation acquisition programs in the post-2006 period. These general principles are:

- BPA will use the Council's plan to identify the regional cost-effective conservation targets upon which the agency's share (approximately 40 percent) of cost-effective conservation is based.
- The bulk of the conservation to be achieved is best pursued and achieved at the local level. There are some initiatives that are best served by regional approaches (for example, market transformation through the Northwest Energy Efficiency Alliance). However, the knowledge local utilities have of their consumers and their needs reinforce many of the successful energy efficiency programs being delivered today.
- BPA will seek to meet its conservation goals at the lowest possible cost to BPA. While it is a given that only cost-effective measures and programs should be pursued, the region can also benefit by working together to jointly drive down the cost of acquiring those resources.
- BPA will continue to provide an appropriate level of funding for local administrative support to plan and implement conservation programs.
- BPA will continue to provide an appropriate level of funding for education, outreach, and low-income weatherization such that these important initiatives complement a complete and effective conservation portfolio.

These principles are consistent with the Council's recommendations. However, there is a need for significant detail to be developed before these principles can be transformed into a specific program structure that best serves the region. There is currently an ongoing collaborative planning process to develop a fully defined proposal for conservation. BPA will, accordingly, make public its final policy with respect to conservation at a later date, following the conclusion of the collaborative process.

Finally, as BPA pursues opportunities to reduce long-term costs to ratepayers, conservation and other demand-side management options will be carefully considered as part of the solution to transmission constraints. Conservation can be part of a non-wires solution that not only will provide low-cost power resources but also will reduce or defer the need for transmission construction.

K. Renewable Resources

BPA will shift from a program focused on direct acquisition to an active and creative facilitation role with respect to renewable resource development. Although BPA will still consider acquisition as a viable facilitation option under the appropriate circumstances, the agency's primary focus will be to reduce the barriers and costs interested customers face in developing and acquiring renewables. As an added benefit, BPA believes its facilitation role will also help non-BPA customers develop renewable resources in the region.

BPA will use a combination of tools and will engage with its customers and other stakeholders to determine which facilitation options will most effectively leverage the agency's available funds to maximize regional development of renewable resources. The facilitation tools BPA sees as being available include, but are not limited to:

Integration Services: BPA recently began offering two wind integration services in the spirit of regional facilitation. These services, and other sound and prudent uses of the flexibility of the Federal hydro system, have the potential to serve as a key component of the agency's renewables facilitation effort.

Transmission System Improvements: Another facilitation option is participation in regional efforts to construct strategic transmission lines to foster the development of the region's excellent wind resources. BPA is also exploring ways to make more efficient use of existing transmission infrastructure.

Rate Discount: Approximately 30 customers have devoted a portion of their Conservation and Renewables Discount (C&RD) funds to renewables in this rate period. Continuing such a rate discount mechanism is another facilitation option.

Direct Acquisition: If BPA determines there is a need to acquire power to meet its regional firm power load obligations, BPA may consider innovative opportunities to purchase from renewable resources, including the participation in such resources by interested BPA customers. The agency will consider other acquisition activities as well if they are the most cost-effective among competing facilitation options and can be accomplished consistent with the agency's financial objectives and governing statutes.

Other Options: BPA is actively consulting with customers and other stakeholders to identify other options that will help facilitate regional renewables development. All of BPA's renewable resources facilitation activities will be subject to a risk review to ensure that they are consistent with the agency's financial and risk management objectives.

Program Funding: BPA will spend up to a net of $21 million per year to support its facilitation activities. The $21 million net expense is a measurement of the expected, added costs of our renewable program measured against avoided alternative long-run marginal power costs. The $21 million comprises the existing $15 million renewables fund and $6 million of annual renewables spending that is currently being accomplished through the C&RD program, which expires at the end of the current rate period. BPA will continue consulting with customers and other constituents as to whether a Renewables Rate Discount Program should be established in the next rate period, or alternatively, whether BPA should use the funds for other facilitation mechanisms. The costs of the renewables program will be recovered in BPA's firm power rates.

L. Controlling Costs and Consulting With BPA's Stakeholders

For the term of existing contracts (through FY 2011), or until new contracts go into effect if that is earlier, BPA will continue to focus on non-contractual means that promote transparency under BPA's financial information disclosure policy, allow for public input on agency costs, and demonstrate management of those costs. BPA recognizes the wide range in concerns and, hence, solutions to the issue of long-term cost control. BPA will continue discussions on long-term cost control in preparation for the July 2005 Regional Dialogue policy proposal on long-term issues. BPA's short-term enhancement activities will include the following:

Collaborative Forums: BPA will engage customers and non-customers in collaborative forums structured similarly to the Power Net Revenue Improvement Sounding Board and current Customer Collaborative to improve the effectiveness and efficiency of BPA's communication processes.

Financial Reporting with Customer and Constituent Input: BPA will continue to improve its external financial reporting in order to increase the clarity and usefulness of BPA's reports to both experts and laypersons. Such information will also continue to be posted on BPA's Web site before it is released to any single customer or constituent group.

Business Process Improvement: In July 2004, a consulting firm hired by BPA conducted a high-level overview of the agency's business processes and recommended functions that warrant more in-depth analysis for strategically and effectively promoting process improvements. The consultant made 23 recommendations in all. In FY 2005, BPA will conduct 7 in-depth process reviews selected from the original 23 recommendations to identify opportunities for improvements in efficiencies and effectiveness. How and when the remaining recommendations will be pursued will be determined by the results of the first phase. This is a multi-phased, multi-year effort that will require a sustained commitment. BPA will provide periodic status reports as significant milestones are achieved.

Power Function Review: In 2005, BPA will conduct an in-depth regional discussion regarding power function cost levels that will be used to set power rates for the FY 2007–2009 rate period. This process will be designed to provide full disclosure of BPA's planned cost levels and ample opportunity for customer, constituent, and tribal input on those proposed levels prior to initiation of the power rate case.

IV. Long-Term Issues

A. Long-Term Policy: Limiting BPA's Long-Term Load Service Obligation at Lowest Cost Rates for Pacific Northwest Firm Requirements Loads

BPA is establishing a long-term policy regarding its PNW customer load obligations. BPA's policy is to limit its sales of firm power to its PNW preference customers' firm requirements loads at its lowest-cost rates in an amount approximately equal to the firm capability of the existing Federal system. BPA expects that firm power load service in excess of the Federal system capability will be provided at a higher, tiered rate, that reflects the incremental cost of power purchased or acquired to meet those additional loads. BPA intends this long-term policy to be implemented through new long-term contracts and rates on the schedule presented in the next section. As stated in Section III.B., Tiered Rates, BPA does not propose to adopt or implement PF tiered rates applicable to public agency customers in its FY 2007 initial rate case proposal.

By itself, this long-term policy is not enough. It is only one step. Creating certainty will require subsequent development of new power contracts and rates. The schedule for these additional steps is described next.

B. Schedule for Long-Term Issue Resolution

BPA and the region have a strategic interest in resolving a number of key long-term issues. BPA is strongly inclined toward 20-year contracts, assuming parties can reach agreement on reasonable terms. This interest centers on providing BPA customers certainty over load service obligations and enabling customers and the market to respond with the necessary electric industry infrastructure investments. Other key strategic interests include general market stability, BPA risk management, and long-term assurance of funding to repay the United States Treasury. BPA's interest in resolving these long-term issues is shared by most BPA customers and by the Council.

To become effective, almost all the decisions must be captured in new long-term contracts and rates. There is a range of opinions within the region on the commitments and decisions can be made in contracts versus those that can be made in rates. BPA's view is that customers, BPA, and other stakeholders must work together to develop a logically linked set of new contracts and rates and that neither by itself will be sufficient to accomplish the long-term goals. This split between contracts and rates must be discussed and decided.

BPA intends seriously to explore the proposal and establishment of a long-term tiered rates methodology to accompany new 20-year contracts during the next phase of the Regional Dialogue. BPA also believes there is a need to develop regional resource adequacy metrics/standards to provide clarity regarding what constitutes generation sufficiency to meet the load serving obligation defined by the long-term Regional Dialogue contracts. These resource adequacy metrics/standards will also provide assurance that needed electrical infrastructure will be developed by Northwest load serving entities to allow the Northwest Power Act mandate of an adequate, economical, and reliable Northwest power system to be met even with BPA in a reduced power acquisition role.

Schedule: The following schedule is ambitious, but BPA agrees with the perspective of the Council and many customers that the region has a core interest in the earliest practical completion of this process.

SCHEDULE FOR ACHIEVING LONG-TERM CONTRACTS AND RATES

Milestone	Date
BPA Administrator Issues Long-Term Regional Dialogue Proposal for Public Review and Comment.	July 2005.
BPA Administrator Signs Long-Term Regional Dialogue Policy and Record of Decision.	Jan. 2006.
New Contracts Offered	Dec. 2006.
Contract Signature Deadline	April 2007.
Complete Establishment of Long-Term Rate Methodology to Accompany New Contracts.	Oct. 2008.
Earliest Contract Effective Date	Oct. 2008.

Challenges to Achieving Our Goal: Achieving this schedule will be challenging. Challenges that both customers and the agency will have to manage include:

1. Ability of BPA, customers, and other interests to find a solution to provide long-term benefits to residential and small-farm consumers of IOUs.

2. Ability to structure long-term contracts to protect taxpayer and ratepayer interests.

3. Finding mutually acceptable solutions to very contentious issues will be difficult, especially while other decision processes are running in parallel.

4. Developing regional resource adequacy metrics/standards to provide clarity and mechanisms to assure the development of needed electrical infrastructure.

5. Ability of customers and other interested parties to invest the necessary time, especially in view of the concurrent activity on BPA's FY 2007 power rate case and a variety of other issues.

6. Ensuring BPA and customers can administer new 20-year contracts for several years concurrent with contracts of customers who choose to retain their existing Subscription contracts through FY 2011. This could also result in two sets of rates through FY 2011 (one for Subscription contract holders and one from Regional Dialogue contract holders).

7. Willingness of customers to sign new 20-year contracts before the supporting rate case concludes.

V. Environmental Analysis

BPA has reviewed the final policy for environmental considerations under the National Environmental Policy Act (NEPA) in a NEPA ROD prepared separately from the Administrator's ROD. BPA has reviewed each of the individual policy issues, as well as the potential implications of these issues taken together. For some issues, there are no environmental effects resulting from implementation of the policy for that issue, and NEPA, thus, is not implicated. For other issues, the policy is merely a continuation of the status quo, and NEPA, thus, is not triggered.

For the remaining issues, any environmental effects resulting from the policy have already been addressed in the Business Plan Final Environmental Impact Statement, DOE/EIS–0183, June 1995 (Business Plan EIS), and the policy would not result in significantly different environmental effects from those described in this EIS. Furthermore, the policy is adequately covered within the scope of the Market-Driven Alternative identified and evaluated in the Business Plan EIS and adopted by BPA in the August 15, 1995, Business Plan ROD.

Evaluating all of the individual policy issues together, the final policy still does not represent a significant departure from BPA's adopted Market-Driven Alternative and would not result in significantly different environmental effects from those described in the Business Plan EIS.

BPA therefore has appropriately decided to tier the NEPA ROD for the final policy to the Business Plan ROD, as provided for in the Business Plan EIS and Business Plan ROD. Copies of the NEPA ROD for the final policy are available on BPA's Web site at *http://www.bpa.gov/power/regionaldialogue* or by contacting BPA's Public Information Center at (800) 622–4520.

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