

**Comments of the
NW Energy Coalition
4422 Oregon Trail Ct. NE
Salem, OR 97305**

on

**Phase 2 of the Bonneville Power Administration's
Regional Dialogue**

June 13, 2005

I. Introduction

The NW Energy Coalition ("Coalition" or NVEC) is pleased to offer these comments in response to the May 11, 2005 request from Paul Norman for proposals regarding PBA's long-term role ("Regional Dialogue"). 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.

The Coalition has provided to both BPA and the Northwest Power and Conservation Council ("Council") numerous oral and written comments regarding the Regional Dialogue and BPA's proposed Strategic Direction. Most notably, in September, 2002 the Coalition and a large number of other public interest groups submitted a detailed proposal addressing these issues in the public hearing process;¹ comments to the Council in December, 2003; and a response to Paul Norman's key issue questions in March of this year. On September 22, 2004 we submitted detailed proposals in phase 1 of this Dialogue, focused mostly on the short-term (2006-9) questions, but also discussing some of the long-term issues. We have also provided Bonneville with detailed responses and proposals regarding its proposed conservation and renewables plans. All of those comments are still valid; and, because we do not wish to repeat them in detail here, we urge Bonneville to review them as part of this process. Attached to these comments is our most recent proposal for how conservation and renewables should be handled under an allocation scheme. These were discussed with Steve Wright on June 1st and presented at the BPA Workshop on June 8th.

II A New Paradigm Must Improve on the Current System

In our September, '04 comments referenced above we expressed our significant concern over BPA's general rationale, goals and justification for its overall proposal to limit its sales at the lowest cost-based rate to the output of the existing system (we shall refer to this general concept as "allocation.") Since that time, our opinion of this radical shift in policy direction has not changed--indeed it has strengthened. Bonneville must

¹ This "Public Interest Proposal" was presented at the regional hearings as a supplement and alternative to the Joint Customer Proposal.

articulate the public and consumer benefits of an allocated system and the significant consumer and environmental risks associated with this approach.

In order for BPA and the region to intelligently determine if allocation of the federal base system is the best solution for the future, we need more than the basic statement that customers will have more certainty and a greater role in their own resource decisions. This rationale is insufficient in scope given the magnitude of the changes proposed.

The basic customer proposal of allocation of the Federal Base System, leaving conservation, renewables and resource adequacy to customer utilities, and a substantial role for customers in controlling BPA's costs, is a recipe for disaster in the region. It will clearly make it much harder for the region to achieve the Council's Plan; it will make it much more likely that we will see volatile prices and the inefficiencies of under- and over-development. It will result in over-attention to short-term costs and being "competitive," most significantly the unwillingness to account for societal costs such as pollution or global warming, and the inability to invest in energy efficiency or renewables because of short-term rate pressure despite long-term bill reductions and rate stability.

As the region attempts to reach consensus around a common proposal for the future, Bonneville must keep the benefits and risks of change squarely in its sights. To craft a win-win solution and negotiate productively, Bonneville must challenge all parties to articulate how its recommendation manages all the identified risks and is in the public interest. Without clear commitments and mechanisms to address public purposes and management of risk, we cannot support allocation of the federal base system.

III. Resource Adequacy Standards

NWEC has already provided detailed proposals to BPA that address almost all of the issues listed in Paul Norman's May 11 letter except for Resource Adequacy Standards, and we will not resubmit them here. We provide these comments on this last issue.

Without an enforceable resource adequacy standard the region will be at increased risk of market volatility and manipulation, as well as excess costs from periods of under- and over-development. In addition, hydro operations needed to benefit fish will be vulnerable to emergency cutbacks. An adequacy standard must go hand in hand with BPA's proposal to shift resource acquisition to its customers.

Without reserve margins or resource adequacy standards, there is a strong short-term incentive for utilities to take part in "boom and bust" resource development. This is not due to poor foresight or inept management. Numerous studies have shown that capital intensive, long-lead-time commodity markets such as electricity, commercial building space, airplanes, etc., behave in this manner. When prices are low, utilities are unable to make large new investments, because it will cause them to lose customers. They therefore purchase from that low market. When prices rise, over-development

occurs as utilities attempt to protect themselves against those prices by self-generation. Individual attempts to act contrary to this behavior cost a lot of money and are very risky (i.e. building generation in a low or falling market, staying in the market in a high or rising market). Behavior that would benefit everyone is prevented by a perverse "Tragedy of the Commons." That is, no single entity can afford to take actions that if done by everyone would result in everyone saving money, because if only a few take the action, they will likely suffer. Everyone else becomes a "free-rider" on their admirable, but futile, actions.

The only way this can be prevented is through collective agreement: an enforceable adequacy standard. California, for example, has adopted a 15-17% planning reserve requirement to keep its market in check. Other markets are using, to various degrees of controversy and success, installed capacity requirements, etc. This is not an easy thing to do but is vital especially when the entities involved are a diverse group of consumer-owned and investor-owned utilities from different states and under disconnected governing regimes. It is a major reason why we urge BPA to be cautious in going down the allocation path.

In addition, there is a second obstacle that has not been addressed. BPA's proposed allocations to its customers will be constrained by each of their net requirements. If a utility decides to build or contract for additional resources (a planning margin) in advance of need, will that affect its net requirements, and thus reduce its allocation? If so, that would create an extremely serious disincentive to customers. They will be very reluctant to acquire long-term resources ahead of time, and instead tend to try and cover their loads in the short-term. This is also a recipe for disaster. NWECC is not expert on the Act's net requirements provisions, and we urge BPA to make sure this issue does not make it difficult or impossible for its customers to act prudently.

In order to provide an enforceable adequacy standard, as well as deal with any net requirements problem (if needed), we would propose the following mechanism.

Once adequacy metric(s) and standards are determined (through the joint BPA-Council framework process recently announced), BPA should acquire and provide that level of planning reserves on behalf of all of its customers. This reserve could come from new renewable resources or be carved out of the original allocation (thus making allocations smaller). BPA would waive this requirement, and its cost, for any customer providing its own planning reserves. This is a simple enforcement mechanism.

IV. Getting from here to there.

On June 10th, BPA announced that it would like to conduct a three-month regional collaboration to seek consensus on its ultimate Regional Dialogue proposal. We support this process, in general. How this collaboration is conducted, however, will be key to producing a positive outcome.

As was discussed on June 8th, another forum for parties to provide feedback or to defend their own positions will not be productive. The process must be deliberately developed to facilitate actual negotiation, creativity and compromise. The Coalition will provide a specific recommendation on how to structure the negotiation process in the near future.

NWEC appreciates this opportunity to comment. We look forward to working with the parties to craft a set of recommendations that will serve the region well.

Attachment

NW Energy Coalition - May 31, 2005

Options for Assuring That BPA and its Customers Acquire Conservation and Renewables in an Allocation World

A. BPA acquires conservation and renewables in Tier 1. (Perhaps include high-efficiency CHP as well.)

Option A1 -- BPA acquires renewables and conservation, and both the **costs and MWs stay in Tier 1**. For conservation and renewables acquired through BPA programs in a utility's territory, that utility's Tier 1 allocation is reduced (decremented). That is, BPA keeps the MWs. But as a result, all Tier 1 allocations get increased proportionally. Costs stay in Tier 1.

Option A2 -- BPA acquires renewables and conservation; the **costs stay in Tier 1, but the MWs are sold on all utilities' behalf**. The size of Tier 1 stays constant. For conservation and renewables acquired through BPA programs in a utility's territory, that utility's Tier 1 allocation is reduced (decremented). The MWs are sold (perhaps some to Tier 2) with revenues reducing Tier 1 cost. As a result customers' allocations remain the same, but the cost changes due to the revenue received.

Option A3 -- BPA acquires renewables and conservation; the **costs stay in Tier 1, but the MWs are sold on each utility's behalf**. The size of Tier 1 stays constant. For conservation and renewables acquired through BPA programs in a utility's territory, that utility's Tier 1 allocation is reduced (decremented). However, the MWs are sold (perhaps some to Tier 2) on the utility's behalf, with revenues going back to that utility.

B. Bonneville conditions sales of Tier 1 to a requirement to acquire conservation and renewables. Each utility would have an obligation to spend funds on C&R (perhaps 3%

of retail revenues); or acquire their share of the Council's conservation and renewables target. Allocations would not be decremented.

The following options could be an element of a policy, but probably not be sufficient in itself to meet the Council's goals:

C. Utility-initiated conservation and renewables acquisitions. For any of the options, **utility C & R acquisitions above BPA's programs** and not subject to decrementing, may cause requirements customers to face net requirement reductions that would affect their allocation benefits. If a utility's load decreases or owned resources increase due to C & R acquisitions outside of BPA's programs such that they cannot receive the whole value of their tier 1 allocation; they can be kept whole by BPA monetizing the difference--including sales to Tier 2 at market prices-- with the money credited back to the customer.

D. Only one basic Tier 2 product is offered by Bonneville: Fixed Priced Green. BPA would offer only a long-term fixed priced green product as its Tier 2. It would shape it with hydro at a small additional cost. This product would almost certainly compete well with other fossil fuel offerings that utilities would be looking at because of BPA's convenience (many of BPA's customers will want to stay with Bonneville for their small load growth needs), economy of scale, and ability to deliver and shape relatively cheaply. (Options A2 and A3 works well with this proposal. Otherwise BPA would have to acquire additional resources for this product.)

Having Bonneville's Tier 2 limited to this product will simplify the issues regarding cross-subsidization between the Tier 1 and Tier 2 "businesses," and avoid the problem of the Federal government competing with other market players on the fossil fuel side. This is less of an issue on the renewables side, in that BPA wouldn't be selling power from its own (Tier 1) assets, and most renewables developers aren't in the business of marketing power to small customers, but would rather be wholesale suppliers to BPA. Also, to avoid another cross-subsidy issue, the shaping services BPA uses for this Tier 2 power (and which come from the Tier 1 hydro) should be available at an unbundled price and available to anyone else at the same price (with revenues going back to Tier 1).