

June 13, 2005



Comments of the Renewable Northwest Project and
Natural Resources Defense Council
On the BPA Regional Dialogue
Phase II

The Renewable Northwest Project (RNP) and the Natural Resources Defense Council (NRDC) appreciate the opportunity to comment on the future of BPA, post 2011. RNP is a regional, non-profit organization promoting solar, wind and geothermal resources in the four states of the Northwest. Our members include environmental and consumer groups, energy companies, manufacturers, and marketers. NRDC is a nonprofit environmental advocacy organization with a long-standing interest in minimizing the societal costs of the reliable energy services. NRDC has more than 45,000 members residing in Idaho (2,815), Montana (2,733), Oregon (16,661) and Washington (24,084).

The future operations of the BPA are of critical importance to RNP and NRDC and our members. The agency has played a key role in the acquisition of cost-effective energy efficiency, and new, renewable energy projects, measurement and analysis of renewable resources in the region, preparation and offering of new products and services for the region's utilities (both power and transmission), helping create a market for green power, and eliminating barriers to renewable resources. All of these actions are consistent with the Power Act's intention for BPA to prioritize cost-effective conservation and renewable resources, and encourage the development of renewable resources. As the energy system in the region has evolved, BPA has played a leadership role by tailoring its efficiency and renewable energy activities to meet the needs of its customers and the region at large.

In short, our view of the appropriate role for BPA in the future is to continue on this path. We do not believe that allocation of the federal system is acceptable without a comprehensive, meaningful, reliable, funded, program for accommodating BPA's stewardship responsibilities, including energy efficiency and new, renewable resources. It is these stewardship responsibilities that set BPA apart from other utilities and marketers, and provided our organizations and others with the arguments to successfully protect and defend BPA from its Congressional detractors, as we have so many times in the last decade.

As the region contemplates BPA's role beyond 2011, we should be looking at the benefits of energy efficiency and renewable resources over the long-term. Investing in these resources brought a huge value to the region during the energy crisis of 2000-01. Continued investment will provide not only local economic benefits, but environmental

benefits as well. Energy efficiency remains the quickest, cheapest, and cleanest resource. Developing our generous endowment of renewable energy potential can help reduce price volatility, help stabilize rates, and reduce the risk of future environmental regulations all while keeping the air clean and maintaining our quality of life.

We have made many recommendations for BPA's future over the past several years. I have attached our comments to the Northwest Power and Conservation Council on behalf of the region's public interest groups. I have also attached the public interest groups' most recent suggestions concerning Tier 1 and Tier 2 power products for the future. We have expressed our concerns and ideas in meetings with the BPA Administrator, at meetings of BPA's customers, before the Council, and in numerous written comments.

It is our hope that we can work with other regional stakeholders and Bonneville to put together a comprehensive proposal that evolves the system toward the future while retaining BPA's important stewardship responsibilities. We are interested in determining how these responsibilities will be met, by when, and with what accountability mechanisms. Since our last full proposal on this issue, the Council has issued the 5th Northwest Electric Power and Conservation Plan. The Plan identifies the amount of cost-effective energy efficiency and renewable energy available in the region over the next 20 years. Any Regional Dialogue proposal for the post-2011 period should include BPA's plan for acquiring those resources.



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**Northwest Energy Coalition Renewable Northwest Project
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December 9, 2003

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RE: Comments on Council Document 2003-18, *The Future Role of the Bonneville Power Administration in Power Supply*

The Northwest Energy Coalition, Renewable Northwest Project, Sierra Club, Natural Resources Defense Council, Citizens' Utility Board of Oregon, and Climate Solutions (Public Interest Groups) appreciate the opportunity to comment on the issue paper, proposed principles, and questions on *The Future Role of the Bonneville Power Administration in Power Supply* posted October 28, 2003. These comments include answers to the questions posed for public comment, a revision of the Council's proposed principles, and a revised Public Interest Group proposal on the *Future Role of Bonneville Power Administration in Managing the Systems Energy Resources and Meeting its Stewardship Obligations*.

The Public Interest Groups have been active participants in the Regional Dialogue that arose in response to the Joint Customer Proposal of 2002; and, in fact, submitted our own proposal detailing BPA's role in meeting its stewardship obligations on September 3, 2002.

While the Public Interest Groups may offer individual comments and proposals regarding the broader issues surrounding the future role of BPA, this submission focuses on how the regional stewardship obligations should be met for energy efficiency, conservation, renewables, RD&D and low-income services. We also believe that fish restoration must also be met in any comprehensive solution.

We appreciate this opportunity to comment and look forward to continuing the dialogue of how we can ensure that BPA meets its regional stewardship obligations that accompany the economic benefits of the BPA system under the Northwest Power Act.

Sincerely,

A handwritten signature in black ink that reads "Sheryl Carter". The signature is written in a cursive, flowing style.

On behalf of:

Northwest Energy Coalition [Nancy Hirsh]

Renewable Northwest Project [Rachel Shimshak]

Natural Resources Defense Council [Sheryl Carter]

Public Interest Group Responses to Questions for Public Comment

1. *Do you think the analysis of the problems and issues presented in the paper is accurate? If not, how is it inaccurate?*

The Public Interest Groups would characterize it less as inaccurate, and more as incomplete. In its definition of “the problem”, the analysis talks about very real financial and political vulnerabilities, but it does not address the fact that the region has fallen short in adequately meeting its stewardship obligations. In its “prescriptions” section, the paper discusses the Comprehensive Review, the Joint Customer Proposal of 2002, and the Regional Dialogue. It does not mention the Public Interest Groups detailed proposal *Incorporating Regional Stewardship Obligations for Conservation, Renewables, RD&D, and Low-Income Efficiency Services in a Slice of System Approach to BPA Service*. We have attached a revised version of that 2002 submission to these comments.

In addition, the Introduction and Summary to the paper indicated that a “common recommendation was to limit Bonneville’s and the region’s exposure to risks of the wholesale power market by limiting Bonneville’s role in serving loads beyond the capability of the FCRPS.” This characterization is not complete as discussed in #2 below.

2. *Do you agree that a more limited role for Bonneville in power supply as described in principles is appropriate? If not, why?*

Not completely, no. The “more limited role for Bonneville” does not allow for them to adequately meet their regional stewardship obligations, which must be directly linked to the allocation of any economic benefits of the federal power system.

The Council’s proposed principles and the new customer principles submitted November 17, 2003 propose that BPA substantially reduce its future role in wholesale power markets; instead, the agency would concentrate on managing its existing resource base. And the formidable economic benefits associated with that limited base would be allocated for up to twenty years among the region’s retail utilities.

An open question, which is not addressed adequately in either proposal for principles mentioned above, is how the agency would meet its long-standing stewardship obligations, which are embodied now in investments in energy efficiency, renewable energy development, low-income energy services, and fish restoration.¹ We address this adequacy in our answer to question #4 below.

¹ One approach with little or no credibility is simply to invite BPA’s wholesale customers to take up these obligations themselves. BPA tried this when it “reinvented” itself during a fiscal crisis in 1993-1994. Energy efficiency investment collapsed across the region when BPA cut back sharply (a drop of roughly 80% in “Annual Pacific Northwest Utility Conservation Investments” from 1994-2000 – a decline of more than \$250 million/year), and the recent renewable energy renaissance has been led by BPA itself, with

3. *Do you think the question of Bonneville's future role in power supply needs to be addressed in the near future? If not, why?*

Absolutely, yes. The Public Interest Groups agree with the region's Governors, BPA, the Council, and many of the region's customers that there is some urgency to coming to consensus on the future role of Bonneville in meeting the region's resource needs. We agree with the Governor's recommendations, cited in the Council's paper, that "Committing to long-term contracts [that include "related stewardship obligations"] will help preserve these benefits for the Pacific Northwest". The longer the uncertainty surrounding this debate continues, the more opportunities to take full advantage of the cleanest, cheapest and quickest energy resources in this region will be missed.

4. *Do you think the principles or characteristics proposed by the Council are appropriate guidance for consideration of Bonneville's future role? If not, why?*

The principles proposed by the Council are inadequate to ensure that the stewardship obligations of the system are met. The Public Interest Groups offer some revisions to these proposed principles, below, which address this problem. We have not addressed all of the proposed principles. However, to seriously address the region's conservation and renewables obligations, the principles and detailed proposal put forward by the Public Interest Groups (and attached to these comments) should be adopted.

- The goal should be long-term contracts (20 years) ~~both~~ to protect the system from interventions from outside the region, ~~and~~ to reduce uncertainty for both the customers and Bonneville, and to ensure the region's stewardship obligations are consistently and fairly met.
- Bonneville's role in providing power beyond the capability of the federal base system should be limited to ~~bilateral contracts or rate mechanisms that align the benefits and costs,~~ direct and indirect acquisition of conservation and renewables to meet the region's stewardship obligations. This would limit Bonneville's exposure to market risks and reduce the uncertainty regarding who will be acquiring additional resources thereby reducing an impediment to resource development.
- Bonneville's role should be ~~limited~~ defined contractually. Although most customers' contracts run through 2011, these changes need to be enacted as soon as possible so as to protect the regional resource from outside interference and

extremely inconsistent regional support (although strong efforts by EWEB, Seattle City Light and PacifiCorp bear note). Low-income energy services continue to rely heavily on BPA leadership and financial backing. The fish restoration obligations of the federal hydropower system cannot be met without a reliable (and growing) dedicated regional revenue stream.

clarify the outlook for resource development.

- Customer agreement to long-term contracts will require at a minimum that Bonneville: 1) provide customers and others greater openness regarding their costs, the factors driving those costs and the decisions affecting them BEFORE decisions are made; 2) ~~implement~~ maintain cost-reducing process improvements; and 3) rebuild trust with the customers and others that Bonneville is a good business partner and steward of our regional resources.
- Any tiered rate developed by Bonneville should include costs necessary to comply with regional stewardship obligations as part of the base rate paid by all beneficiaries of the federal system.
- Any ~~solution~~contract must contain a mechanism for ensuring continued regional development of cost-effective conservation, as determined through the Council's plans. ~~While limiting Bonneville's role to develop new power supplies to bilateral arrangements with customers is a major step in the right direction, it~~ Utility obligation for the acquisition of all cost-effective conservation is not sufficient to ensure the development of cost-effective conservation given the disincentives to utility investment in conservation. Reliance on both local and regional implementation is appropriate, so long as there is a focus on cost-effectiveness and accountability and a backup mechanism is included to ensure that conservation is implemented. A direct Bonneville role in implementation is appropriate where there are economies of scale or other benefits from Bonneville's direct involvement. BPA should provide customers, through contracts, with the opportunity to implement verifiable, cost-effective energy efficiency and conservation programs and low-income efficiency programs to allow for an appropriate measure of local control, creativity and flexibility.
- Similarly, a contract mechanism is required for ensuring that reasonable renewable resource acquisitions and clean, high efficiency resources are developed and that the ability of the hydropower system to support the development of intermittent renewable resources, through the flexibility of the hydropower system, should be explicitly provided for contractually ~~not be unduly impaired.~~

THE FUTURE ROLE OF BONNEVILLE POWER ADMINISTRATION IN MANAGING THE SYSTEM'S ENERGY RESOURCES WHILE MEETING ITS STEWARDSHIP OBLIGATIONS

December 2003

The Northwest Power Act establishes regional stewardship obligations that accompany the economic benefits of the BPA system. According to the Act, the customers of the BPA and their consumers must “continue to pay all costs necessary to produce, transmit, and conserve resources to meet the region’s electric power requirements...” [16 U.S. Code section 839(4)] In addition, the Act prioritizes investment in resources. “Priority shall be given: first, to conservation; second to renewable resources...” [16 U.S. Code section 839b(e)(1)]

STEWARDSHIP PRINCIPLES

1. BPA must ensure that it can meet its long-standing stewardship obligations, identified in the Northwest Power Act, under any allocation model for these valuable system resources.
2. Since the Northwest Power Act explicitly assigns top priority to energy efficiency and renewable energy in meeting regional resource needs, any delegation by BPA of its obligation to meet any regional load placed upon it requires a concurrent customer commitment in contract to finance sufficient stable investments in conservation and renewable resources as a way of meeting system needs for the duration of the allocation commitment.
3. Funding for cost-effective energy efficiency, conservation, renewables, RD&D and low-income efficiency services must be enhanced and stabilized at a specified minimum level of funding in, and for the length of, the contracts.
4. BPA must retain ultimate responsibility and necessary acquisition authority to invest the funds collected to meet stewardship obligations, recognizing the regional nature of the benefits involved, and the need for substantive, verifiable results. BPA will provide customers, through contracts, with the opportunity to implement verifiable, cost-effective energy efficiency and conservation programs, reasonable renewable resource acquisitions, RD&D and low-income efficiency programs to allow for an appropriate measure of local control, creativity and flexibility.
5. The portfolio of conservation investments must include significant investment in the design and/or implementation of regional market transformation, and centralized programs such as low income, RD&D and CFL-type programs.

6. Meaningful performance and accountability standards, including energy savings and new renewable energy production, must be established and independently verified to ensure appropriate and adequate investment results.
7. Strong, regional least-cost planning must continue with a commitment to providing adequate funding to support Planning Council responsibility to carry out planning activities. This commitment must include regular updates for conservation and electricity projects as required by law. Comparison statistics on average bills, total energy costs, and other measures of progress should also be developed by the Council, with the assistance of the Regional Technical Forum (RTF).
8. Any proposal that concerns the Columbia/Snake River hydro system must achieve the legal obligations set forth by salmon recovery laws and treaties, and must provide adequate funding for recovery efforts.

REGIONAL STEWARDSHIP OBLIGATIONS PROPOSAL

Regional stewardship obligations require the development of all cost-effective conservation and sufficient renewable resources necessary to ensure an adequate, efficient, economic and reliable power system for the region. To help meet these obligations, this proposal establishes stewardship obligation levels for energy savings from conservation and energy efficiency, renewable resource development, low-income efficiency services and RD&D based on total electric loads of the region.² The Act envisioned meeting all regional load with least-cost resources as measured by their lifecycle costs, including environmental costs and benefits.³ Setting the obligation to acquire conservation and renewables only on that portion of a customer's load served by a 'federal' resource does not match this vision and creates a competitiveness issue. The effectiveness of any future design in adequately addressing regional responsibilities for conservation and renewables hinges in great part on its ability to demonstrate that the regional obligation for these system benefits will be fulfilled.

Responsibility

BPA should retain ultimate responsibility and accountability to meet the conservation, renewables, low income, and RD&D obligations that accompany the economic benefits of its system. This must be accomplished through specific contractual agreements between BPA and its customers concerning the elements below, and a combination of direct implementation and rigorous accountability mechanisms and safeguards. BPA's authority to acquire conservation and renewables, or adopt wholesale

² Exceptions include the loads of any utility or DSI that is unable to or does not sign a contract with BPA.

³ The Council's recommendations in the Regional Dialogue included the assertion that "Bonneville has the obligation and authority to establish conservation targets and to develop mechanisms to ensure conservation is captured for the entire load of its preference customers, not just the portion served by Bonneville and that Bonneville should use its authorities to the fullest extent possible to ensure the region attains conservation goals established for the entire load of retail customers that can place load on Bonneville."

rate levels based on customer acquisitions, will be established in contract language under which customers agree to place load on BPA as necessary, or develop such resources for the purpose of meeting their own requirements.

Mechanism

Regionally based minimum average megawatt (aMW) targets will be established for both conservation and renewables (dollar requirements will be established for low income weatherization, and RD&D and for funding the RTF). These aMW targets will be translated, using average cost/premium estimates, to a total dollar figure for each. Both the aMW and dollar figures will be included in contracts, divided proportionately by total utility load. The utility will be held accountable for the aMW goals for the portion of the obligation for which they remain responsible (eg, local conservation programs), and will pass along the dollar per aMW equivalent for the aMW obligations for which BPA has responsibility (e.g. regional conservation programs), as well as for any unmet utility obligations. BPA will be responsible for achieving the aMW targets for their portion of the obligation and the aMWs necessary to make up for any unmet utility obligations.

Minimum Obligation Level

The overall aMW goals for conservation, renewables, and financial obligations for RD&D and low-income efficiency services will be based on regional potentials and need, and established up front (with the limited flexibility discussed below) and represent a minimum obligation for the life of the contracts. The Council will review established levels at least every five years, but no more often than every three years. The baseline investment levels must represent aggressive, stable investment over the life of the contracts, while allowing for flexibility due to significant changes in technology advances and long term changes in avoided costs.

Conservation

The Council will establish the conservation target based on achieving all the cost-effective energy efficiency and conservation available over the next 20 years, taking into account new technology potential. Separate and fixed percentage targets for local and regional conservation programs, with a percentage of the total funds reserved for allocation based on need and opportunity, will be established at the outset. The Council will allocate the reserve, with the assistance of the RTF between the local and regional programs. Allocation of this “swing” amount can be revisited and modified by the Council at least every five years, but no more often than every three years.

Preliminary estimates from new regional studies show that the baseline obligation is reasonably expected to be about 175 aMW per year. Using an estimated average investment of \$2 million/aMW, the total minimum annual investment for this savings level is estimated to be approximately \$350 million. These cost-effective investments will produce regional benefits well in excess of cost. The estimated cost-effectiveness potential must be reviewed at least every five years by the Council, but no more than every three years. The requirement may be adjusted no more than 10 percent from the base requirement at this review if significant changes in technology or avoided costs are discovered and determined to have long term effects.

Renewables

"Renewable Resources" are defined as electric energy from new solar, wind, geothermal, incremental hydro and biomass resources installed after January 1, 1997.⁴

We anticipate that over the next rate period many renewable energy projects will prove cost-effective (if not pre-empted by commitments to fossil-fuel generation) and require no above-market cost premium. In order to ensure a substantial and consistent level of regional investment (and to ensure that a mix of renewable technology choices is developed and available for portfolio diversification), a renewables average Megawatt target is established along with an obligation to pay an above-market premium if necessary. The premium level is capped, to limit BPA and customer risk.

The renewables target is based on relatively conservative assumptions, and the premise that long-term system needs (including regional load growth and replacement resources) will be met entirely or substantially with cost-effective energy efficiency and new renewable resources. An average annual requirement for new resource was estimated based on the Power Council's projects average annual growth rate of 1.49% for the period 2006-2025.⁵ This produced an estimated 350 MWa annual growth. Assuming an estimate of all cost-effective conservation of 175 MWa annually, 175 MWa of renewables would be needed each year. We estimate that the maximum average annual above market cost of implementing 175 MWa of renewables per year is \$98 million.⁶ The calculation assumes that the region will be prepared to carry above market costs of new renewables for the first ten years of the project life, and that the maximum level of such costs would be one cent per kWh for projects commenced in the first ten years of the contract rate period and one-half cent for projects commenced in the last ten years of the period.

The megawatt target for renewables would be written into the utility/BPA contracts at this estimated cost of achieving the goal. If the MWa goal can be achieved for less than the stated investment level, the obligation will be considered met. If the MWa target cannot be achieved within the required investment level, then this amount would act as a cap. The targets are annual, but there is flexibility for utilities to move dollars to the best investments.

Every five years, the Council will evaluate regional trends in electricity use and project trends in loads over the following twenty years. Depending on the outcome of

⁴ "Biomass resources" are a generating resource fueled by animal waste, solid organic fuels, including waste wood, forest and field residue, and dedicated energy crops. If waste wood is used as a fuel, it may not contain any wood treated with chemical preservatives such as creosote, pentachlorophenol or copper-chroma-arsenic.

⁵ Per phone inquiry to Terry Morlan, NWPPC, 8-30-02. The projection assumes only price-induced conservation, and further assumes the closure of two aluminum plants. While this last assumption may not prove out, the estimated new resource requirement also does not include any amount of replacement resource, and so is likely conservative with respect to overall system needs.

⁶ All figures are in real 2002 dollars.

this assessment, the renewables MWh and dollar standard can be adjusted up to five percent from the baseline.

To encourage investment in solar or other distributed renewables in reasonable applications, utilities could invest in the resources up to a dollar cap and be excused from meeting the MWh target for that amount. The Council will periodically set diversity targets among the renewable resources, and strongly encourage BPA and its customers to meet them. BPA will provide periodic reports to the Council with the actual MWhs achieved and the resources used in the region. As part of the BPA renewables responsibility, approximately 5% of total funds should be used for renewables RD&D that has regional benefits, such as resource data, development and demonstration projects.

Implementation of Programs

BPA is responsible for implementation of (but can contract out for) regional, and a specified portion of local conservation programs, low-income programs, RD&D, and a portion of the renewables. The utilities are responsible for implementation of a portion of the local programs and for any contracted regional or BPA-administered local programs. In addition, the utility can decide to give BPA authority to carry out its program implementation responsibility if it so chooses.

Conservation

- The initial split in funding for the conservation programs will be:
- 30% Regional (NEEA and BPA regional and multi-utility programs including codes and standards, low income, and RD&D)
 - 60% Local programs administered by utilities
 - 10% The split for this component between regional and local will be decided by the Council with the assistance of the RTF based on local and regional needs. The proportions will be revisited at least every five years, but no more often than every three years.

Funding for the regional programs is transferred from the utility to BPA. The utilities do not directly transfer funds for local programs to BPA, as long as they have filed a proposed portfolio of local programs, which BPA must acknowledge, to be implemented. If the utility has filed a plan and BPA has acknowledged it, then equivalent amounts accrue in a debit account at BPA that are subject to collection if results are not achieved. (See accountability section below) BPA has the flexibility to contract with utilities or other third parties for implementation of regional programs, and utilities have the flexibility to allow BPA to administer some or all of their local conservation programs should they prefer.

The Council will determine the annual amount of conservation funds that should be used for low-income weatherization based on one twentieth of the estimated regional need. Based upon a rough extrapolation from Oregon's estimates, this would result in a regional total of approximately \$30-35 million per year. BPA shall allocate approximately 3% of total regional conservation funds for conservation-related RD&D.

Renewables

Implementation responsibility for achieving the renewables objectives must balance preservation of utility flexibility and the capability of BPA to continue and build upon its renewables development efforts. To achieve this balance, Customers pay through their BPA rates for BPA to acquire 50% of the yearly total, and customers can elect to develop up to 50% of their own renewables obligation. Customers who do not elect to develop their own renewables will compensate BPA for meeting any residual obligation. BPA could also partner with individual utilities on their projects (agree to purchase additional power from the utility's project allowing both to achieve economies of scale) to meet BPA's portion.⁷

The customer proposal assumes that secondary power and ancillary services associated with an allocation of firm power will accompany that allocation to each customer. However, certain ancillary service capability may be critical for system stability and fish migration needs. The services may also be more useful in aggregated regional form for shaping and firming certain renewable resources. Thus BPA should retain first call on the ancillary services capability of the FCRPS to meet regional needs with customers then receiving appropriate allocations.

Accountability

Measurement and verification

Performance in meeting the established obligations will be evaluated through pre-specified mechanisms.

Conservation

All program implementation must follow accepted protocols and M&E plans established by the RTF. The cost of M&E must be built into programs. M&E results must be publicly available. Dispute resolution must be provided for.

The RTF will become a more formalized technical group, with a small core staff and an Advisory Council comprised of experts from representative regional organizations. Evaluating the effectiveness of measures and delivery mechanisms, and updating the "list" of measures will be accomplished by the RTF. This is not a policing function. The RTF will evaluate programs for cost-effectiveness, delivery problems, etc with an eye toward improving the programs prospectively. The RTF, under BPA guidance, will also continue to play its primary Conservation Discount role of keeping track of each individual utility's accomplishments. The RTF will advise on issues including, but not limited to, eligible measures, and recommended savings values and methodologies. The RTF should also develop guidelines to ensure that appropriate education, market transformation and other hard-to-measure programs are included in the utility portfolio of programs. BPA and the Council will provide staff for the RTF. To accomplish its goals, the RTF will be able to request information from utilities and BPA

⁷ We recognize that this assignment of renewables funding and project responsibilities raises issues for investor-owned utilities and regulatory bodies. We are open to alternatives that can achieve the same outcomes effectively and with accountability.

and conduct spot checks of programs, but not for the purpose of policing individual utilities. BPA will retain final decision-making authority on matters addressed by the RTF. However, significant deviations from RTF recommendations will require a public process. C&RD would continue as a mechanism that could be used for conservation compliance with modifications. BPA, in concert with the Council and the RTF, will conduct regional evaluations on the regional and multi-utility programs.

BPA is responsible for ensuring that individual utilities deliver on their obligations and comply with protocols used to deliver measures. BPA will also conduct financial audits of utility programs.

Renewables

The targets are annual, but there should be some level of flexibility for utilities to move dollars from year to year to capture the best investments. Utilities will file an annual report with BPA and the RTF on the status of their investments. The RTF will evaluate the report to ensure that projects are on a development track or are producing power.

Credit for OR and MT System Benefits Charge Investments and any other similar program

The RTF will be responsible for determining the credit level, and comparable measurement and evaluation will be required.

Compliance

Conservation

A debit account will accrue in separate utility accounts at BPA, from which BPA will collect for noncompliance. Funds will be collected on a regular basis (different time/flexibility periods established for conservation and renewables) and used by BPA to achieve the unmet utility MW targets. The utilities must meet a minimum of 80% of requirements annually, and have trued up to 100% of requirements by the end of every three years.

Compensation for noncompliance will occur as follows:

A dollar amount sufficient to fund the utility's total conservation obligation accumulates in a debit account at BPA. The utilities are credited, under pre-established mechanisms, for the MWs actually achieved. A utility must meet 80% of its conservation obligation annually. Each year, utility performance can go no lower than 80% of their annual obligation, and must catch up to their total obligation by the end of three years.

- 1) If a utility does not meet its minimum 80% in one year, it must pay BPA for the remaining MWs at the end of that year, and BPA will implement complementary programs in order to achieve the MWs.⁸
- 2) Likewise, if at the end of the three years, a utility has not achieved 100% of its obligation, it will pay an amount necessary to achieve the

⁸ Precedents for this type of mechanism include the current C&RD program and the authority under the Model Conservation Standards in 16 U.S. Code section 4(f)(2).

remaining obligation to BPA for implementation. (minus the amount the utility may have already paid BPA for its annual shorts)

Renewables

At the end of some reasonable period of time, the utility has to have met its cumulative target or be assessed by BPA so that BPA could meet the target on its behalf.

Northwest Energy Coalition
Renewable Northwest Project
Natural Resources Defense Council

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).