

Regional Dialogue Proposed 5(b)9(c) Policy Changes under the RD Policy

August 8, 2007

Overview

- **Goal.** In Part 1, this presentation will first review current BPA policy and related statutory authority on resource removal; then, in Part 2, present related proposed changes to the 5(b)9(c) policy that are described in the Regional Dialogue policy.
- **Definition.** As used in “Resource Removal,” a Resource (aka Dedicated Resource) is a firm, non-federal resource applied to a public utility’s retail load (i.e. generation or purchased power).



Part 1

Resource Removal and Related Statutes

The NW Power Act of 1980
The Regional Preference Act

The NW Power Act: BPA Power for the Northwest -Net Requirements & 5(b)9(c)-

- **Section 5(b)(1).** BPA must offer to sell Federal power to a customer to meet its firm retail power requirement to the extent not served by the customer's dedicated resources (its **Net Requirements or NetReq**).

The maximum power a customer is eligible to buy from BPA

$$\text{Customer Net Requirements} = \text{Retail Load} - \text{Dedicated Resources}$$

- **Resource Removal** is the removal of a customer's dedicated resource from serving its retail load.
 - Looking at the Net Requirements formula above, a public utility's removal of a resource would increase the amount of cost-based Federal power a customer gets to serve its retail load. *For the basics of 5(b)9(c), see last slide.*

KEY



NW Power Act
5(b)9(c) Overview (cont.)

Resource Removal is Limited by Statute

- **Section 9(c):** To ensure adequate and reliable power to the Northwest,* if existing resources are removed from serving regional load and the power is exported, resulting in increased NetReq that BPA must serve, then the amount of exported power is deducted from the utility's net requirements.
 - This results in an equal offset (decrement) to low-cost Federal power and removes the profit potential for resource removal that negatively affects the NW region's power base.
- Section 3(d) of the NW Preference Act provides for similar treatment of exported hydropower.

*One of the purposes of the NW Power Act is to assure the Northwest of an efficient, adequate, economical and reliable power supply (Section 2.(2)). Exporting regional power reduces power adequacy and reliability for the NW.

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Slide 5

Resource Removal Under Statutes (cont.)

So, Why Allow Any Resource Removal?

- Generally, resource removal is permitted to create equitable results when:
 - The resource itself is no longer a viable means of providing power, (called “statutory discontinuance”), or;
 - Load loss requires removal of a resource to maintain a contracted level of BPA PF (usually low-cost) power.
 - This could occur when a customer has experienced load loss or not realized forecast load growth.
- *However*, even when resource removal is permitted, a customer must still meet Section 9(c) requirements to ensure that power from the removed resource is not exported to the detriment of the NW region.

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Slide 6

Statutory Discontinuance

NW Power Act of 1980

Policy on Determining Net Requirements Under Sections 5(b)9(c) of the NW Power Act

- **NW Power Act, Section 5(b)(2)** – Dedicated resources can be removed for obsolescence, retirement, loss of resource or contract rights, or with the consent of the Administrator.
- **Policy, III.B.1 – Statutory Discontinuance - Definitions.**
 - **Obsolescence** is end of useful life.
 - **Retirement** allowed when a resource cannot produce a reasonable economic return.
 - **Loss of resource** is a *force majeure* –type loss.
 - **Loss of contract rights** is expiration w/o ability to extend or due to *force majeure*-type events.
- For statutory discontinuance, the customer is entitled to replace the removed resources with Federal power. Policy, III.D.4.

Equitable,
common-
sense
reasons for
resource
removal



Resource Removal for Load Loss

NW Power Act of 1980

Policy on Determining Net Requirements Under Sections 5(b)9(c) of the NW Power Act

- **NW Power Act, Section 5(b)(2)** – Dedicated resources can be removed for obsolescence, retirement, loss of resource or contract rights, or with the consent of the Administrator.
- **Policy, III.D.2** - Current Subscription contracts allow for removal of dedicated resources due to load loss, on an annual basis, to maintain the amount of Federal power originally allowed under the contract.
 - This load loss includes projected load that does materialize.

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Slide 8

Resource Removal for Load Loss (cont.)

- **Load loss can occur through:**
 - Actual reduction in retail load (i.e. large commercial customer leaves service area) or;
 - Projected load growth that does not occur.
 - By the late '90s, the NW had been growing rapidly and the economy was strong. High projected-retail-load growth was used in Subscription contracts to determine future NetReqs.
 - But the California energy crisis in 2000; the following dot.com bust and economic downturn; and economic effects of the Sept. 11, 2001 terrorist attack combined to create stagnant load growth in most of the NW for several years.
 - Under these circumstances, resource-removal provisions of the Subscription contracts has resulted in some public utilities receiving more PF power from BPA than their actual load justified.



PART 2 - Proposed 5(b)(9c) Policy Changes Under Regional Dialogue

- **Objectives:**
 - **From Lessons Learned:** Mitigate the effect of a difference between the forecast and actual loads during the contract period on a utility's calculated NetReq.
 - **From Regional Dialogue Criteria:** Allow customers to retain their PF power rights when they experience load loss, but ensure take-or-pay treatment of Tier 2-priced power.
- **Key Overarching RD Policy Changes**
 - **Address Potential FBS Capacity Constraints:** Establish availability of Tier 1-priced power for each public utility through the High Water Mark (HWM) process.
 - **Provide for Resource and Load Changes within a 20-Year Contract Term:** Recalculate NR annually and reset HWM at two-year rate period intervals.



**Proposed 5(b)(9c) Policy
Changes Under RD (cont.)**

- **5(b)9(c) Policy Changes Scoped in RD Policy**

- **Allow Removal of New Resources Built for Load Growth Above the HWM.** Customers will be able to annually remove new resources used to serve load above HWM when that load growth has not occurred.
 - This allows a utility to maintain its calculated amount of Tier 1-priced power, should the utility develop resources in excess of its actual load growth. Otherwise, the risk to a utility's Tier 1-priced power will discourage resource development and undermine the RD policy objective of encouraging resource development.
 - Block, Slice and Load Following customers.
- **Limit Removal of Existing Resources.** A customer will only be able to remove existing resources (those applied under the Subscription contracts) to maintain its NR power purchase amount established for the two-year rate period based on its then-current Net Requirements.
 - Will only be allowed when NR is less than HWM.
 - This will cause a utility's NR to more closely track changes in its actual load, to accomplish the equitable distribution of lowest-cost PF power.
 - Block and Slice customers only. Load following adjusts automatically.

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**Proposed 5(b)(9c) Policy Changes
Under RD (cont.)**

- **Eliminate Renewables 9(c) Exception.** Under Subscription contracts, utilities could develop up to 200 aMW (aggregate) in new renewable resources and apply it to their regional retail load without it becoming a “dedicated resource.” The utility could remove the resource without a corresponding 9(c) decrement to their calculated NR.
 - This exception, meant to encourage development of renewable resources, will be eliminated under Regional Dialogue.
 - The exception is no longer needed because a favorable regulatory climate has developed toward renewables, such as federal tax incentives and state renewable portfolio standards.
- **9(c) Clarification.** BPA has reviewed the 2003 clarifications to the 5(b)9(c) policy and does not anticipate proposing any changes to those clarifications. However, BPA is interested in hearing any customer concerns regarding the current 9(c) policy in the context of the Regional Dialogue contracts.

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Examples of 5(b)9(c) Policy application and changes under the Regional Dialogue Policy will be developed and discussed in the public workshops regarding BPA's 5(b)9(c) Policy.



5(b)9(c) from 10,000 feet

The Concept

- **5(b): Provides a benefit.** Here's a good deal for the *consumers* in the NW – cost-based Federal power.
- **9(c): Protects the benefit.** The good deal is meant for the consumers of the NW, not to free up a utilities' dedicated resources, serving current retail load, to sell power to the wholesale market.

The Basic Plan

- **5(b):** The BPA must sell its power to any requesting utility to meet the utility's firm power load not met by its dedicated resources.
- **9(c):** A utility will not be allowed to profit by shifting currently dedicated power resources to the wholesale market outside the Region, to the detriment of the Region, and then replace them with inexpensive Federal power.

