Bonneville Power Administration
Power Function Review Regional Meeting
April 13, 2005

BPA Rates Hearing Room, Portland, Oregon
Approximate Attendance: 10

[The packet for this public meeting is available at: www.bpa.gov/power/review.]

Introduction

Paul Norman (BPA) welcomed participants to the Power Function Review (PFR) regional meeting. He began with a brief PFR overview, noting BPA's mission statement on the opening page of the meeting packet. The question the PFR addresses, according to Norman, is what costs will go into the power rate case. We would like to set rates as low as practicable, consistent with meeting its mission.

Where does your mission statement address public purposes? asked Rachel Shimshak (Renewable Northwest Project). Norman responded that "create and deliver the best value to our customers and constituents" gets at the public purposes, along with a sentence about mitigation of the FCRPS' impact on fish and wildlife (F&W).

Steve Weiss (Northwest Energy Coalition) said BPA should be neutral in the PFR and leaving public purposes out of the mission statement "makes it seem like you're leaning in a particular way already." You have a legal obligation on conservation and renewables, he stated. So you are asking us to be more explicit about that in the package, Norman clarified.

Norman went over a 10-year BPA rate history, noting that rates were $21.2 per megawatt-hour (MWh) in FY 1997 and are estimated to be $30.7 per MWh in 2006. In real dollars, your rates have stayed about the same, Weiss commented. He suggested BPA display the nominal and real dollars side by side on the rate history graph.

Norman explained that BPA will be doing a formal rate case to set rates for its power services, but a rate case does not include program costs. Costs are outside the rate case, and the PFR is a process to address those costs, he said. Norman went over which elements in BPA's rate equation are part of the rate case and which are PFR.

This is our cost structure in its simplest form, he said of a graphic displaying BPA's forecasted expenses for 2007-2009. The PFR is looking at the components of cost and seeing if each is as low as it can, while still allowing us to meet our strategic objectives, he explained.

Norman moved on to a graph of the range of possible PF rate outcomes, and noted that the program costs point to an average rate of 28 mills per kilowatt-hour (kWh). But if we set our rate at that level, we'd have only a 50 percent chance of making our Treasury payment, and that is unacceptably low, Norman said. A huge issue in the rate case will be what we have to add to rates to get to a 95 percent chance of paying Treasury, he indicated.

There is a policy choice to make here, Norman continued: go with a higher fixed rate to cover the risk or set a variable rate that fluctuates depending on the revenue we collect. If we were to go with a fixed rate, we estimate it would need to be about 36 mills, he said. We don't think that will work for customers, and we'll probably have to have something variable, Norman stated.

People have asked why rates can't go back to 22 mills, like they were in the previous rate period, he said. We are going to try to keep rates as low as we can, but some things are different than they were in 1997, Norman said. He listed several factors that are pushing costs upward, including the investor-owned utility benefits, F&W program increases, higher public utility loads, O&M and debt service increases, and the conservation and renewables discount. There are also offsets, Norman noted, such as reduced aluminum loads and higher prices for surplus sales. But the offsets are far short of the increases, he added.

The resource augmentation costs of $600 million annually in the current rate period will go away in the next rate period, and that makes a significant difference for our cost structure, Norman continued. The average costs for preference loads are expected to fall from 31.5 mills to 28 mills, he said. But we also expect to go into 2007 with low cash reserves, Norman said.

Isn't a lot of risk already incorporated into the 31.5 mills? consultant Joel Brown asked. If you're covering your costs at 31.5 mills given bad water, haven't you already taken care of a "big hunk of risk"? he asked. The market has been so robust that we have gotten decent secondary revenues despite low water conditions, Norman said. But if we set a fixed rate, it has to have a risk adder that is almost equal to our estimated secondary revenues in order to get to the desired Treasury payment probability, he explained. The issue is the great variability in our secondary revenues, Norman said.

We have been discussing our costs in meetings and workshops for some time now, and in May, we will issue a proposal of costs we intend to use for our initial rate case proposal, he explained. The items on pages 10-11 are recommendations we have heard so far about changes we should make to our costs – most are reductions, but there are some increases, Norman pointed out. We are also keeping "a scoresheet" of the suggestions, he said. Norman went over several items on the list.

You have not listed all of the comments you've heard, Weiss stated. We have told BPA that it is not spending enough on conservation, and that not doing so is costing you money, he said. If you capitalize investments in conservation, it will pay you back in seven or eight years, according to Weiss. You have also heard that you should "front load" budgets to get the conservation as early as possible in the rate period, he indicated. You don't have enough money in the conservation budget, Weiss stated.

We said we would use the Council's Power Plan as a guide for our conservation target, Norman responded. We are also seeking the lowest cost way to achieve that, he said. "Our philosophy is to do the right things at the lowest possible cost," Norman said. He also said that BPA would add the suggestion to increase conservation targets to the list.

You have heard warnings this budget is cutting it too close, Weiss said. The answer is not necessarily to increase the budget; you could also put in place "a serious backstop," he said. "Raise the budgets now or have a credible backstop," Weiss recommended. It is a good thing that you will meet the Council's target, but you may not have budgeted enough money to do that, he stated.

Why not close the Columbia Generating Station? asked Jay Formick (Oregon Heat). It's the most expensive power that you have, he said. Energy Northwest has cut its costs, and the average for power from the nuclear plant is around 25 mills, Norman stated. If you look at the going-forward operating cost, it is competitively priced power, he added.

Norman said BPA would put out its proposal on costs May 2 and take comments until May 20. Our final closeout letter for the PFR will come out the week of June 13, he said.

Public Comment

Jenny Holmes, Ecumenical Ministries of Oregon, said her organization strongly supports energy conservation as a way to address global climate change. Climate change will have a big impact on the hydro system, and conservation and renewables should be a high priority in BPA's budget, she said. We need to have resources to move the region in the right direction, Holmes said, adding that BPA's budget can influence the way the state and the region go with conservation and renewables, she said. Your public responsibilities – F&W, conservation and renewables – are important to the citizens of the region, and we urge you to take them seriously, Holmes stated.

Jay Formick, Oregon Heat, said BPA's F&W funding must be adequate to address uncertainty in the legal arena. The court may grant injunctive relief due to the way the ESA has been "misconstrued" in the region, and BPA must be prepared to pay the relief if that happens, he advised. We would push strongly for adequate funding for F&W, Formick reiterated.

Steve Weiss, NWEC, took issue with the graph of F&W costs on page 37. We had a commitment the graph would change, "but here it is again," he said. It does not show the 4(h)10(c) credits and displays the cost only of F&W on operations and not the costs of industrial withdrawals, irrigation, and other uses, Weiss said. In these policy debates, BPA must be more neutral, he added. The $356.9 million attributed to F&W operations is an old number, Weiss continued. Two-thirds of that number is associated with spill and one-third is associated with the timing of flows, he said. But the seasonal price differential for electricity is flat this year, and when the water moves this summer, the market price of power could be even higher than it was in the winter, Weiss said. The fish operations could make you money this year, he stated.

You need to have enough money to address the risk of the unknowns with F&W, Weiss advised. As part of the cost-recovery adjustment clauses (CRACs) in the last rate case, BPA agreed to limits on spending, and that seemed to me to unduly tie the hands of the Administrator, he commented. You need to have good risk mechanisms, Weiss said, adding that he favored the CRACs.

He praised BPA for its efforts on behalf of low-income weatherization. The changes made in the contracts were very responsive, and your work has been "super," Weiss stated. Your work on transmission has been good too, he said, but he questioned opening capacity up to those in the queue ahead of renewables. You need to make sure renewables have a way to get on the system, Weiss said. Operating on "a first-come, first-served basis" is not the way to divvy up a scarce resource, he added.

Weiss said BPA should not count IOU accomplishments on conservation toward achieving its goal. You pledged to meet the target in the Council's plan, and if you count IOU conservation, you should raise your target, he added. Weiss also said "decrementing" utilities when they achieve conservation savings would effectively raise the cost of their conservation. It's a problem especially for utilities that are facing the possibility of system allocation – people don't like to lose a resource, and it's both "a money and perception problem," he said. Weiss suggested BPA treat all conservation the same – decrement all or none, and/or monetize the benefits of conservation. He also pointed out that there is no inflation in the conservation budget and that by the third year of the rate period, the budget wouldn't go very far.

BPA also needs to provide a conservation backstop, Weiss stated. You could use the rate credit to do this – if utilities are not doing enough conservation, you could double the rate credit, he suggested. I'd recommend doing it retroactively if it's needed, so people don't hold back on their efforts, Weiss said. You're doing well on some things and badly on others, he summed up. You provide great opportunities for public input, Weiss added.

Joel Brown, Energy Risk LLC, said he viewed the $356.9 million estimate for the cost of fish operations to the hydro system as too low. The hydro system offers the ideal way to load follow when wind generation is integrated into the system, he said. But if hydro is being used as a base-load resource and is not available to follow variability, "you force people to go out and build CTs that create the greenhouse gas that you are trying to avoid" with the wind generation, Brown said. There are huge hidden financial and environmental costs here, and the $356.9 million understates them, he stated. The biggest cost is a result of not being able to use the system to handle variability – hydro is the fastest reacting and cheapest resource to follow load, Brown said. If you don't regulate wind with hydro, you regulate it with thermal, he stated.

Pete Peterson, Portland General Electric, said his company is working with the joint customers on PFR comments. Risk management is a big issue, he said.

Jim Abrahamson, Community Action Directors of Oregon, thanked BPA staff for great work in removing contract barriers to low-income weatherization. It is very frustrating to see structural barriers to programs, especially when there is money available, he said. This will make an enormous difference, Abrahamson said. Once the currently available money is spent, "we'll be back for more – the need is there," he added. Do what you can to keep costs down, Abrahamson went on. Lower electricity bills are also an important way to help low-income people cope, he indicated. But don't underfund conservation and renewables – they will help low-income consumers in the future, Abrahamson concluded.

Rachel Shimshak, Renewable Northwest Project, commended BPA on its transmission policies for renewables, which she said are leading the nation. Since the tax credit for wind generation exists for 2005, you are focusing on getting projects on the ground, and we appreciate it, she said. Shimshak recounted that when BPA was in financial trouble in 1999, renewables advocates agreed to a reduction in the budget from $40 million annually to $15 million. Now, you are going forward with $15 million in rates for renewables, she commented.

We'd like you to have consistent funding available to invest and retool programs that meet customer needs, Shimshak urged. She called on BPA to be open to opportunities to collaborate with customers and to stay in the renewables market. "I can't figure out where you are headed," and I don't see the dollars in your budget to actually address the renewables needs, Shimshak said. I don't see the tools to follow through on your commitment – it takes dollars to do this, she added.

Shimshak pointed out the problem wind developers have with getting funding and permits to build without a commitment for transmission. "It's a chicken and egg problem," she added. We may need to provide money that people can use up front and repay, Shimshak suggested. You need to think long term, she said. With fossil fuel prices going up, the value of conservation and renewables increases, Shimshak said. We know "your customers look at every penny you spend," but you need to think long term, she stated.

The meeting adjourned at 6:40 p.m.