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Issues '98

October 1998

Fact Sheet #6: The Region Speaks

Summing up Issues '98

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Thank you for participating in Issues '98. This public process was designed to give you an overview of and a context for major policy issues surrounding BPA's future. Your input will help BPA develop planning assumptions for our power and transmission rate cases. With the exception of cost-cutting recommendations, Issues '98 is not a decision-making process by BPA. Instead, your comments will help inform decisions made in other forums, both within the region and by Congress. This fact sheet focuses on what we heard and what we plan to do next. To learn more about how to participate in the various forums surrounding BPA's future, call (800) 622-4519.

Last May, the Bonneville Power Administration opened a conversation with the region known as Issues '98. It had three objectives: (1) to provide an overview and context for several major policy issues involving BPA; (2) to engage the region in a dialogue about these issues; and (3) to describe the risks and uncertainties BPA and the region must confront. Issues '98 focused on the five years beginning in October 2001 and running through September 2006, the next rate period.

With one exception, Issues '98 was not a decision-making vehicle but rather was used to better inform assumptions BPA will take into its rate cases. The exception involved recommendations made by a Cost Review panel set up to help BPA manage its costs and increase its efficiency. As a result of comments received in Issues '98, BPA did make a decision on those recommendations.

A Conversation with the Northwest

Issues '98 focused on five broad categories, each described in individual fact sheets published last spring.

1. [Cost Management](#);
2. [Future Fish and Wildlife Funding](#);
3. [Power Markets, Revenues and Subscription](#);

4. [Transmission Issues](#); and
5. [Risk Management](#).

From May 19 through June 26, 1998, BPA took public comment in writing in 18 small group meetings and in three regional public meetings in Spokane, Seattle and Portland. In all, BPA received 443 comments. Following is a brief summary of what participants said and BPA's response. A copy of the full comment analysis from Issues '98, including BPA's response, is available by calling the number at the end of this document.

[Cost Management \(Fact Sheet #1\)](#)

This fact sheet described the work of a panel of experts that reviewed BPA's cost structure. The Cost Review panel made 13 recommendations designed to lower BPA's costs by \$131 million a year and to increase federal hydro system efficiencies sufficiently to produce \$15 million more a year in revenues. The period covered is 2002 to 2006. Following input received during the Issues '98 process, the BPA administrator committed BPA to achieve savings equivalent to the total recommended by the panel. The savings target will be used to help BPA determine its revenue requirement for the 1999 power rate case.

BPA is releasing the administrator's final decision in a separate document, ["BPA Targets Cost Savings: Close-out on Cost Review Recommendations, Fact Sheet #7,"](#) which is available by calling the number at the end of this document.

[Future Funding for Fish and Wildlife \(Fact Sheet #2\)](#)

This fact sheet described assumptions about BPA's fish and wildlife funding obligations through the 2002-2006 rate period and how BPA can meet them. Final decisions have not been made on fish and wildlife program components and the schedule for program implementation. In working with the region on funding issues, BPA's intent has been to take into account the range of potential costs associated with all hydro system configuration alternatives currently being considered by various parties, together with an estimated range of costs for implementing the Northwest Power Planning Council's Fish and Wildlife Program. BPA has not judged the comparative biological merits of alternatives.

There are two cost ranges depending on the schedule for implementing the hydro system configuration alternatives. The expedited schedule assumes that major cost impacts of drawdown of lower Snake River dams and modification of John Day Dam could occur by 2004, while the adjusted schedule assumes they could not occur until 2006. As of mid-July, the estimated annual financial impact on BPA, over the period 2002-2006, for the region's fish and wildlife programs under the expedited schedule ranges from \$438 million to \$721 million a year, while the range of financial impacts under the adjusted schedule is \$438 million to \$632 million annually.

BPA received 63 comments in this area, and views were divided. Some commentors said BPA needs to balance environmental and power values, while others urged the agency to recognize its obligations to salmon recovery and Indian treaty rights above all else. Similarly, there was support both for funding the high and low ends of the range of costs. Some commentors spoke to a need for a unified science-based recovery plan. Others called for a greater emphasis on results.

BPA response

No final decision about future fish and wildlife funding levels was made or intended to be made at the conclusion of Issues '98. However, BPA continued to work toward regional consensus by releasing a white paper, "Fish and Wildlife Funding for the 2002-2006 Rate Period," that provides a framework for how BPA will meet all of its financial obligations, including those for fish and wildlife, given uncertainties about markets and costs.

The paper includes a set of principles to provide guidelines for structuring BPA's Subscription and power rate processes and intended to keep the options open for future fish and wildlife decisions. These principles, along with probabilities assigned to the range of costs, were submitted for additional comment through Sept. 4. Federal agencies agreed on these principles concurrent with release of BPA's Power Subscription Strategy Proposal on Sept. 18. The principles can be obtained by calling the number at the end of this document.

[Power Markets, Revenues and Subscription \(Fact Sheet #3\)](#)

In this fact sheet, BPA described the challenge of setting rates and estimating revenue potential in the 2002-2006 rate period. The majority of the 134 comments focused on Subscription. The Subscription process defines how the region's federal power should be sold in order to keep the benefits in the region and to keep beneficiaries aligned with costs.

Overall, the region responded favorably to BPA's draft planning and did not signal a need for major changes in direction. But many stakeholders felt that more time was needed to address issues surrounding power subscription. Comment focused on the amount of sales to residential and small farm exchange loads, the amount of power available at BPA's lowest cost-based rate, stranded cost recovery and BPA's need for cost management. Some commentors also encouraged BPA to promote its customers' competitiveness and to promote "green" power.

BPA response

In response to the need to give parties more time to address Subscription issues, BPA changed the Subscription schedule, which was to have started in July, to start in November. Similarly, the power rate case, originally scheduled for fall of 1998, is now scheduled to start in early 1999.

BPA stressed its commitment to keeping rates competitive and costs low with its decision to adopt the full level of savings and revenue enhancements of the Cost Review panel. BPA will continue working with the Bureau of Reclamation and the Corps of Engineers to improve federal hydro system efficiency, and BPA has already taken initiatives to encourage development and purchase of environmentally superior power.

On Sept. 18, BPA released its proposal for implementing Subscription. In November, BPA plans to begin signing up power customers for the 2002-2006 period. The proposal and a [Keeping Current](#) publication that provides an overview of the Subscription process is available by calling the number below.

[Transmission](#)

(Fact Sheet #4)

With deregulation, there is growing demand for uniform services and tariffs among transmission providers. BPA has voluntarily complied with the Federal Energy Regulatory Commission's open-access directives and anticipates further changes. National legislation on utility industry restructuring may change the way BPA tariffs and rates are set. Federal Power Act conformance would further align BPA with FERC directives on open access and ratemaking, including transmission pricing and approval of transmission contracts.

Of the 46 comments on transmission issues, the major customer concern is whether the costs of the General Transfer Agreements will be borne by power or transmission customers or directly assigned. Commentors also expressed concern that running separate power and transmission rate cases could lead to increased costs.

In addition, customers expressed concern about the potential of moving fish and wildlife costs from power to transmission. Commentors in general were divided in views on a transmission surcharge as a potential mechanism for emergency cost recovery.

BPA response

The power rate case and subsequent transmission rate case will address and resolve many issues, such as how costs are assigned to power or transmission, General Transfer Agreements, and generation-supplied inputs to transmission and ancillary service rates. BPA's initial power rate proposal will include proposals for functionalizing costs and assigning certain interbusiness costs to the business lines. To date, BPA has held two customer meetings on these interbusiness line issues and will hold additional meetings prior to the formal rate process. Managing the uncertainties of a bifurcated rate case should not increase the net cost to BPA customers.

The Transition Board, set up by the Northwest governors to guide implementation of their Comprehensive Review recommendations, is working on its proposal for a Northwest Chapter to national electric restructuring legislation. The proposal will recommend placing BPA transmission under FERC jurisdiction similar to that governing investor-owned utilities. It also will address an emergency power cost recovery mechanism in case BPA power rates are unable to recover all power costs. Any emergency cost recovery, if needed, will be developed in a separate process with public input opportunities.

Risk Management **(Fact Sheet #5)**

The risk management fact sheet assessed risks BPA faces, described risk management tools and presented a series of risk analysis scenarios for the 2002-2006 period. Managing risk involves taking a look at the likelihood of certain unpredictable events and developing a strategy to be prepared in case these events occur. Uncertainties include hydro conditions, market prices, fish and wildlife obligations and other uncertainties such as those associated with the residential exchange, transmission costs and the cost reduction initiatives.

The adequacy of risk management tools is measured by the probability BPA can meet its Treasury payment. BPA will demonstrate a high probability of Treasury payment in full and on time

The Next Steps

over the five-year rate period at least equal to the 80-percent level established in the last rate case and will seek to achieve an 88-percent level.

Of the 54 commentors, many expressed views about BPA building sufficient financial reserves. Some recommended that BPA aim to have a very high reserve level at the end of 2006 in order to weather uncertainties associated with the 2007-2011 rate period. Others commented that accumulating of reserves, beyond what is reasonably necessary to be consistent with sound business principles and to maintain Treasury payment probability targets, is not acceptable.

Following is a schedule of events from mid-September:

Mid-September 1998:
Fish and Wildlife Funding Principles

September to Mid-October 1998:
Power Subscription Strategy Proposal – public comment period.

Mid-November 1998:
Subscription process begins

Early 1999:
Power Rate Case initial proposal

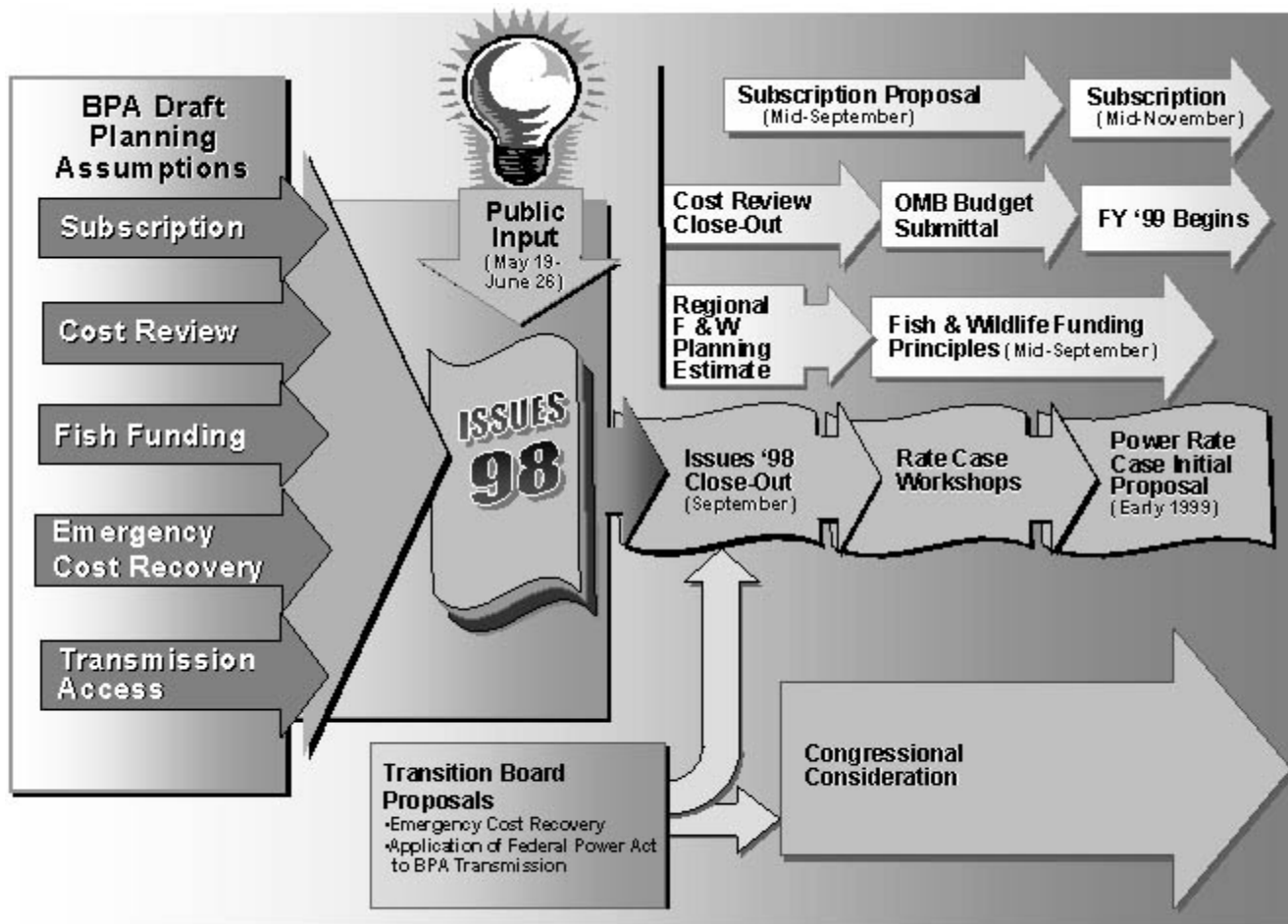
Emergency cost recovery was another area of interest. Some commentors said cost recovery could be adequately addressed through the contracting process, eliminating the need for a transmission surcharge. Others recommended viewing a surcharge as a mechanism for additional fish and wildlife funding. Still others addressed the use and adequacy of risk management tools.

BPA response

BPA recently released a white paper, “Fish and Wildlife Funding for the 2002-2006 Rate Period,” that proposes a general framework for how BPA will meet all of its 2002-2006 financial obligations, including funding for fish and wildlife. For a copy, call the number at the end of this document.

BPA continues to work with the region to refine its approach to financial risk management. Questions on the use of various financial risk management tools are being addressed in public meetings on future fish and wildlife funding and through the Subscription work group, and will be explored further in the 1999 power rate case.

Issues '98 Close-Out and related processes



For More Information

In addition to this publication, the publications below are available upon request by calling BPA's Public Information Center at 1-800-622-4519. Copies also are available by visiting BPA's Web site at: <http://www.bpa.gov>. If you would like to speak to someone about any of these issues, please contact BPA using the number above or contact your BPA account executive.

Issues '98 Fact Sheets

- [Fact Sheet #1](#): Cost Management
- [Fact Sheet #2](#): Future Fish and Wildlife Funding — Keeping the Options Open
- [Fact Sheet #3](#): Power Markets, Revenues, and Subscription
- [Fact Sheet #4](#): Transmission Issues
- [Fact Sheet #5](#): Risk Management
- [Fact Sheet #6](#): The Region Speaks: Summing Up Issues '98
- [Fact Sheet #7](#): BPA Targets Cost Savings: Close-out on Cost Review Recommendations
- [Fact Sheet #8](#): Cost Management Implementation Plan
- [Fact Sheet #9](#): Issues '98 Comment Analysis

Other documents available

- BPA's Power Subscription Strategy Proposal
- Issues '98 Comment Analysis
- Fish and Wildlife Funding Principles

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