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ENERGY EMERGENCY
Temporary Small Resource Policy
May 17, 2001

Background

Under Section 2(2) of the Northwest Power Act, BPA must assure an adequate, efficient, economical, and reliable power supply. BPA is to provide its power services consistent with sound business principles, as discussed in BPA's Business Plan. Present conditions for the upcoming summer and operating year indicate that an adequate supply of power to meet load in the Northwest may not be available on a timely basis. BPA has a projected need for the upcoming operating year to augment the Federal Base System by up to 3,000 megawatts (MW). At this same time, market prices are as high as \$350 per MW hour (MWh) for power purchased for delivery in the next six-to-twelve months. BPA is also faced with water conditions that are one of the lowest on record (with 53% of average flows) and with financial reserves that are precarious.

Proposed Policy

BPA is proposing this Temporary Small Resource Policy as an incentive to customers to reduce firm load on BPA in the short term. The policy allows the temporary use of short-term resources by BPA customers to help meet their load and to relieve immediate supply needs. This policy is a one-time, short-term, response to the power emergency caused by the shortage of long-term planned resources and the short-term market demand on the West Coast. This policy is intended to be an interim measure that helps bridge the gap created by the power emergency.

This policy is limited to 450 MW of small resources that are new to the region. These temporary small resources can be diesel, reciprocating gas, or gas turbine, and must produce at least 1 MW, but no more than 25 MW per unit. In order to participate, the utility must have a 10% load reduction under BPA's rate mitigation policy. The customer may apply some, or all, of the temporary Small Resource to its own load to meet this requirement. The policy will be effective from June 2001 through September 30, 2002, and participation is on a "first come, first served" basis. However, each temporary new resource may operate for no more than a 12-month period.

BPA will take no financial stake in developing such resources, and will not buy the output of the resources. Customers may, however, buy resource back-up services from BPA. This policy requires the customer to meet all applicable Federal, State and Local regulations and industry practices including, but not limited to, those of the Federal Energy Regulatory Commission and National Electric Reliability Council. In addition all diesel

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and natural gas fired reciprocating engine powered generators must be equipped with BACT emission control technology.

BPA recognizes that addition of these temporary short-term resources will not precisely match load, and that power may need to be resold by the customer to help manage its resources during this energy emergency. Therefore, BPA is clarifying its "5b9c" Policy to give customers the flexibility to help the region deal with the energy emergency. These temporary small resources may be operated for service to regional load or sold on the open wholesale market under certain conditions. For the duration of this emergency, the excess output may be sold, without a reduction in BPA's requirements obligation to the customer adding the resource. This policy is designed to allow the immediate addition of energy resources and to remove a potential impediment to customers; it is applicable only through September 30, 2002.

- A) All resources are brought into the program on the clear understanding that this policy is applicable on a temporary basis. BPA is conducting a broad review of a variety of actions planned or underway to meet the energy emergency. BPA may decide as part of the broader review to modify the temporary small resource policy. Any such modifications would apply only to resources added after the adoption of the modifications; modifications would not be retroactive to resources already in operation.
- B) A resource's operation may vary depending on applicable regulations for the particular resource. For example, if a state limits the number of hours a particular kind of generator may operate; monthly or annually, then that limitation applies in determining the amount of power from that resource eligible for treatment under the policy.
- C) The developer and/or customer will be entirely responsible for all costs of development, operation and site remediation. The developer and/or customer will hold BPA harmless and indemnify BPA against all claims arising from the operation of the resource.
- D) For the duration of the emergency, customers can serve their own load with such resources without 5(b) effects on their net requirements and may export a portion of these small resources not used for their load without a reduction of BPA firm power obligation to the customer under 9(c).
- E) Developers must be able to change the operation of the resource after the 12-month period of this policy. Customers may continue to operate the resource but it would be subject to the standard 9(c) policy on export after the 12-month period to which this clarification applies.

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- F) Any resource that does not meet the program criteria or ceases to meet criteria will be covered by the 5(b)/9(c) Policy as the terms of that policy apply to the larger, more permanent non-Federal resources of the customer.
- G) All temporary small resources must be separately metered in accordance with BPA's current policies on new metering arrangements.
- H) Customers and resource developers are responsible for obtaining transmission paths as required.