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keeping CURRENT

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GETTING POWER TO THE PEOPLE OF THE NORTHWEST

BPA'S POWER SUBSCRIPTION PROPOSAL FOR THE 21ST CENTURY

The Bonneville Power Administration has released a proposal for selling its federal electric power into the 21st century. The proposal, called the Power Subscription Strategy Proposal, details how BPA expects to continue its mission to provide the least expensive electricity possible to the Pacific Northwest while meeting not only its federal legislative requirements but also addressing concerns of Northwest stakeholders.

In many ways, this is a historic time. While BPA has always covered its costs through the sale of its goods and services in the marketplace, it must now do so in a fully deregulated wholesale electricity market. This means that BPA is selling its cost-based power in an intensely competitive environment. Unlike other wholesale power providers, BPA sells its power at cost, and those costs must cover not only the absolute costs of power production but also unique responsibilities to the people of the Pacific Northwest.

BONNEVILLE POWER ADMINISTRATION

As with any desirable but limited resource, competition for Columbia River power is intense. It is BPA's job to balance, professionally and fairly, the competing demands for federal system power. This proposal reflects many challenging and carefully considered decisions and tradeoffs aimed at not only balancing the needs of all BPA's customers and their consumers but also considering the needs of the Northwest Indian tribes and other interest groups.

Earlier this year, BPA conducted a public involvement process called "Issues '98," which was designed to involve the region in a conversation about many of the issues before BPA, including those related to this Subscription proposal. A number of participants asked that BPA give the region more time to deal with certain issues, particularly the ranges of possible fish recovery costs and how to spread the benefits of the federal power system. As a result, BPA deferred the Subscription process from July to November of this year.

GOALS — PROVIDING VALUE TO THE REGION

Approaching this task, BPA has several fundamental goals driving its decisions. BPA's new administrator, Judi Johansen, articulates these goals as follows:

- Spread the benefits of the Federal Columbia River Power System as broadly as possible, with special attention given to the residential and rural customers of the region;
- Provide market incentives for the development of conservation and renewables;
- Avoid rate increases through a creative and businesslike response to markets and additional aggressive cost reduction; and
- Allow BPA to fulfill its fish and wildlife obligations while assuring a high probability of Treasury payment.

In arriving at the Subscription proposal, BPA has sought the advice and counsel of a wide range of interested and affected groups and individuals over a period of nearly three years. Advice has come from the Comprehensive Review of the Northwest Energy System sponsored by the governors of the four Northwest states. This review provided a regional viewpoint of the fundamental role BPA should play in the society of the Pacific Northwest.

Input has come from environmental groups and Northwest tribes about their concerns for salmon and steelhead. It has come from large and small electric utility and industrial customers about their needs for flexible ways to purchase low cost, reliable federal power. It has come from technical working groups looking into the details of how federal power and its costs can be spread fairly among competing interests. The proposal was built from their advice along with BPA's statutory responsibilities, and then measured against the goals articulated by the administrator.

The proposed Subscription strategy is now available for public comment. Written comments should be delivered to BPA not later than Oct. 23. Information on how to obtain the proposal and submit comment is at the end of this document. BPA expects to come to its final decisions on Subscription by early November, and then begin a ratemaking by early 1999 to implement the pricing policies of the final strategy. Interested parties are invited to submit comments in writing or by presenting oral and/or written statements at one of the scheduled public comment forums detailed on page 8.

AN OVERVIEW OF THE SUBSCRIPTION PROPOSAL

The Power Subscription Strategy Proposal contains four sections and an introduction. The first section, Subscribing to Federal Power, describes the mechanisms for making sure power will be available to publicly owned utilities, investor-owned utilities for their residential and small farm customers and the "direct service industries" (aluminum, chemical and pulp and paper plants that buy directly from BPA).

BPA cannot predict with certainty how much federal power will be taken by the publicly owned utilities that have first call on it. (They are called "preference" utilities because of this first-call right). The proposal outlines different options to ensure that power is available to residential and small farm customers of investor-owned utilities and to the direct service industries. With this proposal, BPA is reflecting its very roots. In addition to giving preference and priority to public bodies and cooperatives, the Bonneville Project Act of 1937 calls for serving rural and domestic consumers throughout the Northwest.

WHY IT'S CALLED SUBSCRIPTION

The word "subscription" came from the 1996 Comprehensive Review of the Northwest Energy System, sponsored by the region's governors. The review called on BPA to offer to Northwest customers at-cost subscriptions to federal Columbia River power rather than to sell at market prices, whereas most of the electric power industry nationally is moving to market pricing. The review's goals for the Federal Columbia River Power System were to:

1) align the benefits and risks of access to existing federal power;
2) better ensure repayment of BPA's debt to the U.S. Treasury; and
3) retain the long-term benefits of the system for the region.

The second section, **Power Product Design,** discusses the types of power products BPA expects to offer beginning in 2001. The products are all based on serving a BPA customer utility's "requirements loads." This is the amount of power a utility needs from BPA to ensure it has enough power to serve its own consumers. In some cases it is all the power a utility needs to serve its consumers, and in others it is what the utility needs to make up any difference between its own power resources and its consumers' total needs.

Within this section, a **Risk Management Strategy** describes the financial contingency measures BPA intends to use to make sure all its costs are met, including present and possible future recovery costs for species listed under the Endangered Species Act. The risk management strategies are designed to meet unknown costs and still allow BPA to maintain a high level of confidence in making its payments to the U.S. Treasury in full and on time.

The third section, **Pricing,** lays out the strategies for pricing BPA's main power products. The basic pricing strategy is to provide the lowest cost power to BPA's current public utility customers and to residential and small farm customers of investor-owned utilities. BPA also expects to have some of its lowest cost power available for the direct service industries.

Because BPA now faces the possibility of needing to purchase power to meet its 2001 to 2006 loads, service for load growth could cost utility customers more. This section also provides insight into BPA's plans for continued leadership in encouraging energy conservation and renewable resource development.

The fourth section, **Contract Elements,** discusses the kinds of contracts, duration, standard provisions and optional contract types and terms. The proposals in this section are aimed at encouraging varied duration of contracts so that BPA and the region do not face total contract "drop-off" in the year 2006. They provide flexibility for some contracts to be as short as three years and some as long as 10 years. This section also details various options a customer might purchase to assure future rights.

What follows is a somewhat more detailed account of each of the four main parts of the proposed strategy. While we have made every effort to accurately reflect the proposal, we urge interested people to read the entire proposal for specific details.

GETTING FEDERAL POWER TO ALL CORNERS OF THE REGION

BPA expects to have about 6,300 average megawatts available for Subscription; that is, for sales of power under various types of contracts. Publicly owned utilities have statutory "preference and priority" to the power, but the amount they may take is not entirely predictable. There are about 130 public utilities in the region and their power purchase requirements vary widely. Residential and small farm consumers of investor-owned utilities may be provided with federal power through utility purchases rather than through the old "Residential Exchange" program.

BPA also recognizes the direct service industries' economic importance to the region, and the agency intends to make power and services available to them as well. This strategy meets the goal of spreading the benefits of the federal system as widely as possible within the region.

BPA intends to open Subscription in mid-November, and the process would continue for at least a year. BPA proposes to make Subscription power available to public utilities at the lowest, cost-based rate for all loads not now served by those utilities' own generating resources. In addition, BPA proposes to guarantee the residential and small farm consumers of investor-owned utilities access for up to 1,500 average megawatts of power at approximately the same rate. At least 1,000 average megawatts would be from federal system power. Up to 500 average megawatts could be a purely financial transaction. The proposal anticipates state regulatory agencies will participate in ensuring that the low cost benefits of the federal power flow through to residential and small farm customers.

BPA expects to serve up to 2,000 average megawatts of direct service industry load by a combination of interruptible power plus firm power not taken by public utilities and residential and small farm customers of investor-owned utilities. However, availability of the 2,000 average megawatts for the direct service industries is not guaranteed. It will depend on how much power is taken by the public utilities and investor-owned utility residential and small farm customers.

MANAGING RISK IN AN UNPREDICTABLE ENVIRONMENT

The main financial risks BPA faces during the years 2001 to 2006 are uncertain water conditions, market prices, the full range of potential fish and wildlife costs and other operating costs. Both high and low water years and changing market conditions can lead to widely fluctuating revenues – as much as several hundred million dollars above or below the average. The fish recovery effort is now estimated to be anywhere from $438 million to $721 million on average per year during this period. (See box on Commitment to Fish and Wildlife.) Therefore, BPA's driving objective of attaining stable rates for a 10-year period must be backed up by some potent contingency measures.

The Risk Management Strategy details those financial contingency measures BPA intends to adopt. Final amounts and the order in which contingencies would be used will be set by the power rate case, but they are described here in the order BPA proposes to use them.

Before discussing financial contingencies, it's important to note that BPA is continuing to aggressively cut costs within the agency. It has agreed to accept the $131 million in annual cost cuts for the years 2002-2006 recommended by a Cost Review Panel earlier this year. Cost-cutting has become a way of life at BPA.

The first line of financial contingency is made up of three mechanisms: net revenues for risk and two fish and wildlife Treasury repayment credits.

Net revenues for risk is simply building a small increase into the price of BPA's power. The money is held by BPA and used to manage the peaks and valleys of revenue and cost fluctuations.

The first "fish credit," called the 4(h)(10)(C) credit, is a statutory right BPA has to reduce its annual Treasury payment by an amount equal to about 27 percent of certain fish and wildlife annual expenditures. This credit averages about $60 million per year but varies with certain circumstances. The credit derives from the fact that just over a quarter of the federal dams' functions are dedicated to nonpower uses such as flood control, irrigation, navigation and recreation.

The other "fish credit" is called the Fish Cost Contingency Fund. The fund was established in 1995 based on earlier, unused annual credits, and it will be used as a credit against BPA's Treasury payment. The current amount in the fund is about $325 million, but its use is limited to strictly defined situations, primarily to offset revenue problems in low-water years.

The second package of financial contingency plans consists of using varying contract terms, indexed priced contracts and option fees. Varying the length of time for contracts guards against a revenue "cliff" at the end of the planned five-year rate period. Index-priced contracts would bring in more revenue if the market is high, which now seems more likely. But they could result in lower revenues if the market is low. Option fees paid for future contract or price advantages could be used to offset future financial needs.

The third and final line of defense consists of extraordinary measures to be used in "financial emergency" cases. The first is a temporary hike in BPA's rates, usually called a Cost Recovery Adjustment Clause, or CRAC. BPA proposes to limit the use of a CRAC to $100 million in any one year. The final amount of a CRAC and what would trigger one will be developed in the power rate case.

A last resort would be a temporary increase in BPA's transmission rates to provide a loan, limited to about $25 million, to the Power Business Line. The loan would be repaid with interest to the Transmission Business Line. BPA will attempt to develop its power rates such that there is no reliance upon such a loan to meet Treasury payment probability goals.

COMMITMENT TO FISH AND WILDLIFE

Over the past year, BPA has worked intensively with interest groups, other agencies, and customers to achieve common understanding of how BPA will address the uncertainty of future fish and wildlife costs in its post-2001 power rates and contracts. This discussion has resulted in eight principles for fish funding summarized below.

1. BPA will meet all of its fish and wildlife obligations once they have been established, including its trust and treaty responsibilities.
2. BPA will take into account the full range of potential fish and wildlife costs currently estimated at $438 million to $721 million based on 13 long-term alternatives being evaluated in the region.
3. BPA will demonstrate a high probability of Treasury payment in full and on time 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.
4. Given the range of potential fish and wildlife costs, BPA will design rates and contracts to achieve similarly high Treasury payment probability for the post-2006 period by building financial reserves and other mechanisms.
5. BPA will minimize rate impacts on Pacific Northwest power and transmission customers.
6. BPA will adopt rates and contract strategies that are easy to implement and administer.
7. BPA will adopt an approach that is flexible to respond to a variety of different fish and wildlife cost scenarios.
8. BPA will use a combination of mechanisms to achieve these principles, including additional cost reduction, use of existing authorities if needed to implement stranded costs recovery on the transmission system, selling Subscription products on staggered contract terms, a cost recovery adjustment clause (CRAC) in power contracts for Subscription customers, an option fee from some customers in return for increased price predictability, cost-based indexed pricing for some products and carry-over of reserve balances into the 2002-2006 rate period.

BPA is fully committed to meeting these principles in the Subscription process and rate case. Based on the analysis BPA has done to date, we believe the rate and contract proposals made in the Subscription proposal do, in fact, carry out the fish funding principles. However, this conclusion is subject to further testing. If the proposals appear not to meet the fish funding principles upon further analysis, then BPA will make adjustments to conform to the principles. (The full set of principles can be ordered through the information provided at the end of this document.)

DESIGNING POWER PRODUCTS FOR FLEXIBILITY

The Subscription proposal reflects and meets all legal requirements. BPA is statutorily obligated to offer power to Northwest publicly owned utilities and to provide the benefits of federal power to investor-owned utilities' residential and small farm loads. BPA is required to meet a public utility's "net firm power load requirements" when asked. This means that BPA must offer to sell electric power to a public utility to meet its total Pacific Northwest consumers' load, minus any part of that load served by the utility's own power resources. In addition, BPA may (but is not required to) sell power to its direct service industries. The power products that BPA is proposing are designed to meet the general load requirements of these customers.

BPA is proposing the following three categories of power products, with specific products designed within the categories.

The first category is Core Subscription Products. These are the basic energy and capacity products to meet a customer's own retail requirements. They are power products only and do not include any transmission delivery or ancillary services. These products will have standard, posted rates that are set in the rate case and are not negotiable in contract negotiations.

The second category of products is called Customized Subscription Products. They are products that have standard product and rate elements at posted prices but add other elements at negotiated prices.

The third category is Non-Subscription Products. This includes such products as Storage, Displacement Rights, Operating Reserves, Block Flexibility, etc. These products are generally purchased to support generating resources owned and operated by the utility. They are highly specialized, and prices will be negotiated under the Firm Power Products and Services rate schedule, which has a cost-based price ceiling.

BPA is making a product catalogue available for review along with the Subscription proposal. Utilities and other customers can obtain copies from the Power Business Line or their local BPA account executive.

ESTABLISHING FAIR PRICING AND KEEPING PRICES LOW

The general pricing strategy BPA is proposing is central to the agency's meeting its goals of stable, low-cost prices and avoiding disproportionate impacts across the Northwest. If BPA is successful in creating appropriate price signals, the market will allocate the economic benefits of the federal power system much more equitably than any regulatory scheme might do.

BPA serves its preference customers at the Priority Firm Power (PF) rate. For preference utility loads now served by BPA, a PF(1) rate would apply. For post-Subscription preference utility requests for requirements service, a PF(2) rate would apply. For loads placed on BPA that are now served by a customer's own generating resources, a PF(1) Surcharge rate would apply. The PF(2) and PF(1) Surcharge would both reflect the higher cost of power purchases or new resources BPA would have to acquire to serve the additional loads. New loads of 10 average megawatts or more would be served at a New Resources, NR(2) rate that reflects BPA's cost of acquiring a resource.

Investor-owned utilities serving residential and small farm loads would have the opportunity to purchase a specified amount of power at the NR(1) rate, a rate that will be close, or equal, to the PF(1) rate. Other suppliers who may serve the load in the future would have the same rights.

If available, firm power for direct service industries would be sold at the Industrial Power (IP) rate, which is the PF(1) rate plus a calculated industrial margin.

Core Subscription Products would be at the PF(1), PF(2) or PF(1) Surcharge rate, depending on the utility's circumstances as outlined above.

Customized Subscription Products would have the applicable PF rate for the Core Product components and a negotiated price for other products in the combinations.

Non-Subscription Products would have negotiated prices with a price cap set by the Firm Power Products and Services (FPS) rate schedule.

LEADERSHIP IN CONSERVATION AND RENEWABLE ENERGY

BPA will continue in its leadership role of supporting energy conservation and renewable resources. The BPA Subscription proposal contains a strategic direction to meet that goal.

Pacific Northwest electric loads and electric generating resources are coming into balance – demand has roughly caught up with supply. BPA does not anticipate acquiring additional resources to serve load growth in the same way it has in the past, so its historical role of managing centrally designed and funded conservation programs will end soon. However, two different elements of BPA's pricing structure should continue to support regional efforts to develop conservation and renewable resources.

First, as the regional power demand continues to grow, electricity at peak use periods will become more valuable, and electricity at off-peak periods will become less expensive. BPA will be pricing it accordingly. This should provide strong incentives to conserve electricity and develop renewable resources where they are most needed – in peak use periods.

In addition, BPA is proposing a significant new rate feature that would provide discounts for customers who meet certain criteria for investing in electricity conservation and renewables. BPA proposes that the criteria be developed in concert with regional interests, and that, once developed, the criteria would be used by utilities to self-certify the actions that would qualify for a rate discount. The discount should provide another strong incentive for utilities that voluntarily invest their own funds in conservation and renewables, and it should complement the actions states may take to support these types of investments in any electricity restructuring legislation.

There are many details that will have to be worked out, and BPA is seeking suggestions and ideas.

General Transfer Agreement service (transmission service via nonfederal lines) to preference customers would continue under the proposal, with the costs continuing to be rolled into the overall BPA power rates. For agreements that expire during the 2001-2006 rate period, BPA's Power Business Line will either renegotiate agreements or buy open access tariff transmission. The Power Business Line will not, however, arrange delivery of any nonfederal power to General Transfer Agreement points of delivery.

SETTING OUT CONTRACT TERMS TO OFFER CHOICES

BPA is proposing a wide array of contract types and terms that it hopes will meet the needs and desires of its customers. Instead of the "one-size-fits-all" basic contracts of the early 1980s, BPA plans to develop its Subscription contracts in bilateral contract negotiations with each customer.

Although each contract would be negotiated separately, BPA is proposing several standard contract provisions such as covering uncontrollable forces, transmission delivery, cost recovery, billing, dispute resolution and required statutory language.

Customers could choose from two contract types. One is an umbrella contract with terms that extend beyond the 2001 to 2006 rate period, and the other is a commercial contract, the terms of which expire at the end of the sales commitment.

Among the flexibilities BPA is proposing are:

- Options for follow-on rights in contracts. BPA is proposing three different types of contractual rights to purchase power in the future. BPA would provide different follow-on rights depending on how long a contract commitment the customer makes.
- Future price guarantees in its contracts that would give a customer a "lowest available rate" guarantee beyond 2006 so long as the customer is willing to pay the cost of BPA securing the option in the financial markets.

BPA is proposing to offer incentives for customers to choose different duration contracts. This is primarily to avoid the "revenue cliff" that BPA faces when most of its sales contracts expire at the same time, as do the current contracts. It can also allow BPA to collect additional revenues in future years for unanticipated costs and/or changes in the market.

Consequently, BPA is proposing to offer three, five, and longer than five-year contracts. BPA intends to develop a five-year rate that recovers all of its costs on average over the rate period, but the power price would be lower in the first three years and higher in the last two. For five-year contracts, customers would have price certainty throughout the five-year period. For contracts between five and 10 years, BPA would negotiate a price indexed lower than market (a "market-minus" index) to assure the customer of BPA's lowest cost power in the future. For contracts of 10 years, BPA would not ask for an option fee for future access to BPA's least expensive power.

BPA proposes to offer public utility load growth service under the same terms and conditions (as determined in the rate case) in both the Full Service and Actual Partial Service products. Load growth coverage would not be provided with the Firm Block product. BPA expects that costs of load growth service will be collected from utilities using the service rather than melding costs into the agency's entire rate base.

The proposal contains several different ways that BPA will price public agency load gain – new retail loads that are served for reasons other than normal increases within existing service areas. A public utility annexing loads would pay rates based on previous BPA service to the annexed loads. For example, if the load were previously served at the PF(1) rate, it would continue to be. If the annexed load were part of an investor-owned utility's residential and small farm load, BPA would give the load a proportionate share of power delivery or financial benefits as though it were still served by the investor-owned utility.

For new public utilities (these can be municipal utilities, public utility districts or cooperative utilities), the rules would work much the same as for public utility annexed loads.

These provisions are aimed at allocating the cost of power acquired by BPA to serve new load to those who are using it, rather than allocating the cost to all of BPA's customers.

BPA also is proposing service to Northwest Indian tribes if they form their own cooperative utilities to serve tribal members. A Northwest tribe that forms a utility before Subscription ends would be eligible for PF(1) power for all of its residential and small farm loads regardless of the prior status of those loads. If the remainder of the tribal load were previously served at PF(1) rate, it would continue. All other load would be served at the PF(2) rate. BPA expects new tribal utilities to work closely with the utilities currently serving tribal loads.

Over the last 18 months, BPA has worked with a variety of Northwest interests — customers, tribes, fish and wildlife interest groups, industries and other constituents — in developing this proposal. We have worked hard to ensure this proposal provides value for all these interests. We welcome further comment. BPA

COLUMBIA RIVER POWER & BENEFITS CONFERENCE

If you are interested in learning more about the issues addressed in BPA's Subscription proposal, you are invited to attend the Columbia River Power & Benefits Conference on Sept. 29, from 8 a.m. to 4:30 p.m. at the DoubleTree Hotel-Jantzen Beach in Portland, Ore. The conference is free, although there will be a $10 charge for lunch, which includes a keynote speech by former Congressman Al Swift. He will talk about developments in the region's electricity picture since the Northwest Power Act of 1980. BPA administrator Judi Johansen will offer her vision, and panelists from interest groups, utilities, industries, tribes and regulatory agencies will discuss issues revolving around BPA's Subscription proposal. For registration information, please call Cheri Larson (503) 230-3325 or 1-800-622-4519.

will best serve the Northwest to the extent it reflects the values and wishes of this region.

HOW TO COMMENT ON THIS PROPOSAL

If you are interested in commenting on the Subscription proposal, you have several options. You can send written comments to: Bonneville Power Administration, P.O. Box 12999, Portland, OR 97212 or fax them to (503) 230-4019. Comments must be received by Oct. 23. You also can attend one or both of two public comment meetings on Oct. 8 at Cavanaugh's Ridpath Hotel in Spokane, Wash., and on Oct. 14 at the DoubleTree-Lloyd Center in Portland, Ore. For more information about these meetings, call BPA at 1-800-622-4519. Interested parties also are invited to BPA's Columbia River Power and Benefits Conference (see box above.) Your comments will become part of the final comment log.

If you want to send your comments on Subscription to BPA electronically, you can do so in two ways. E-mail comments to *subscription.comments@bpa.gov.* If you have access to Internet newsgroups, use your news reader to log on to *news://press.bpa.gov* then go to the *bpa.subscription.comments* newsgroup. Or, using your Web browser, go to *news://press.bpa.gov/bpa.subscription.comments*. Once in the newsgroup, post your comment. In addition to being included in the final comment log, E-mailed or posted comments will appear in the newsgroup throughout the comment period for others to read and comment upon.

SUBSCRIPTION AND RELATED PUBLICATIONS

In addition to this publication, the following publications are available upon request by calling BPA's Public Information Center at 1-800-622-4519:

- BPA's Power Subscription Strategy Proposal
- BPA Targets More Cost Savings: Close-out on Cost Review Recommendations (DOE/BP-3098)
- Cost Management Implementation Plan (DOE/BP-3107)
- The Region Speaks: Summing Up Issues '98 (DOE/BP-3096)
- Issues '98 Comment Analysis (DOE/BP-3108)
- Fish and Wildlife Funding Principles

NEED MORE INFORMATION?

If you have questions about the federal power Subscription process, please contact your BPA account executive or call the nearest BPA office listed below:

Bend, Ore.	(541) 318-1680
Burley, Idaho	(208) 678-9481
Idaho Falls, Idaho	(208) 524-8750
Missoula, Mont.	(406) 329-3060
Portland, Ore.	(503) 230-7597
	(800) 622-4519
Seattle, Wash.	(206) 216-4272
Spokane, Wash.	(509) 358-7409

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