

# Summary of Regional Dialogue key concepts

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Following are highlights from the Long-Term Regional Dialogue Concept Paper. The descriptions here are cursory and intended to show the scope of issues addressed. Interested parties are encouraged to read the concept paper for greater detail and context. In several cases, the term “BPA proposes” is used, and it should be understood that a proposal at this point is highly preliminary and intended only as a starting point for discussion.

## Service to publics

BPA proposes that all 7,300 average megawatts of firm power from the existing Federal Base System go to the region’s public utilities, consistent with the public preference provisions of the law. BPA would charge a Tier 1 rate for this power, with the Tier 1 rate equaling the costs of the existing system.

BPA would serve more load than the 7,300 aMW output of the existing system if individual customers ask BPA to acquire additional power for them and agree to pay BPA’s cost of acquiring the power through a higher Tier 2 rate. The costs of this newly acquired power would no longer be melded with the costs of the existing system when BPA sets rates.

This decision serves two purposes. First, it reflects the actual value of the low-cost federal system because it would not meld in the costs of higher-priced resources or market purchases. Second, since utilities would bear the higher Tier 2 costs of any power they purchase beyond the federal system output, it will send them a clearer signal of what resources they need to develop or purchase in the future. This will be a major step in ensuring that the region builds an adequate resource infrastructure. In the past, there was little incentive to develop resources when utilities could fall back on BPA instead of developing resources because BPA would meld the higher cost resources in with its lower cost base.

BPA proposes new 20-year contracts for all its public utility customers. These contracts would give each customer a 20-year “High Water Mark” or HWM that defines its rights to power at the lowest rate. These High Water Marks would be permanent for the 20-year duration of the contracts, giving the utility 20 years of certainty. They could be changed only if the utility’s service area changes through annexation or sale. The tiered rate structure for long-term contracts would be established in a 7(i) (rate setting) process. These rates would be adjusted to account for costs such as the Residential Exchange Program and the costs of BPA’s public responsibilities, such as compliance with the Endangered Species Act.

BPA proposes to offer roughly the same mix of power products that it now sells to public utilities, including full requirements and block service. Further analysis of the Slice product is needed before BPA decides how much Slice to sell and what changes it will need to make in the product after four years of experience with Slice. A regional team is being formed to work with BPA on this analysis.



## New public customers

Another challenging issue is how newly formed public utilities that request service will be treated. BPA proposes giving such new customers that are formed from an IOU a permanent HWM, but only if, at the time of their request, some of the lowest-cost power is not being purchased by existing customers. When actual energy deliveries, including those for new public customers, are forecast to exceed the existing federal system, then all customers' energy deliveries would be reduced proportionately until they equal the output of the federal system. If, at the time of a new public request, all lowest-cost power is being fully purchased, then the new public would not receive a HWM but would be eligible to purchase power from BPA at Tier 2 and participate in the residential exchange. A new public customer that is formed out of an existing public customer will simply get a pro rata share of the original public's HWM.

## The public residential exchange

The Residential Exchange Program – or REP – created by the Northwest Power Act of 1980 allows both investor-owned and public utilities to financially exchange their higher-cost resources for BPA's lower-cost resources and to pass the rate benefits on to their residential and small-farm consumers. If it continues in the future, the REP for public utilities would allow them to pass much of the costs of the new resources they acquire back to BPA. This would make many of the benefits captured in the concept paper difficult to achieve. BPA proposes that public utilities agree not to claim these exchange benefits as a condition of their new HWM contracts.

## IOU exchange benefits

Since the Northwest Power Act was passed 25 years ago, BPA has provided over \$3 billion in payments to investor-owned utilities to help keep their residential and small-farm consumer rates down. The calculation of these payments has been a source of great regional contention for most of those 25 years. The investor-owned utilities and state public utility commissions believe that the literal interpretation of the law would make the residential exchange benefits over \$600 million per year. Some public utilities believe the proper interpretation would be closer to zero benefits. BPA's preliminary analysis, outlined in the concept paper, is that the annual benefits would likely fall in the \$100 million to \$300 million range if the residential exchange were reinstated after the current settlement expires in 2011. However, reinstating the exchange would likely lead to ongoing legal disputes, high administrative costs and no certainty for the IOUs about what their benefits will be, and less certainty for the public utilities about what their rates will be.

BPA proposes that a formula similar to the current 2007-2011 formula be agreed to via settlement with the IOUs, giving them \$100 million to \$300 million per year for their residential ratepayers. This proposal would give the IOUs an amount that appears to be roughly equal to what they would get if the exchange program were reinstated. It would give the IOUs much greater long-term certainty about the level of their benefits. It would increase the predictability of BPA's Tier 1 rates, since the costs would be paid for through that rate. It would avoid millions of dollars in administrative costs for the exchange program. Finally, if agreed to among the region's utilities, it would greatly reduce the level of regional conflict and litigation.

## Direct-service industries

With Subscription contracts for direct-service industries expiring in 2006, BPA conducted a lengthy public process to determine how the DSIs would be served through 2011. As a result, BPA announced last June it would offer contracts to four DSIs through 2011. Service is limited to a maximum 577 average megawatts (or the financial equivalent) and a cap of \$59 million a year.

Although BPA is not required by law to continue this service beyond 2011, it is proposing to continue this offer after 2011 to help sustain important jobs within the region. The proposal is intended to give the remaining DSIs an opportunity – but not a guarantee – to provide employment. The proposal has been designed to meet the following goals:

- Minimize rate impacts to other customers;
- Strictly limit risks to BPA and other customers;
- Not reduce amounts of power available to other customers;
- Not require BPA to acquire power; and
- Minimize regional conflict.

## Conservation

The Northwest has benefited greatly from BPA's and its customers investments in conservation. BPA hopes to encourage development of further cost-effective conservation in the load it serves by continuing its current general approach to conservation post-2011. This approach would involve pursuing the amount of megawatts of conservation equivalent to all cost-effective conservation in the load that BPA serves. Recovering costs of conservation in Tier 1 rates makes sense because achievement of conservation would free up more available Tier 1 power. The focus would continue to be on facilitating achievement of conservation at the local level, since this has proven most effective. As it is currently, BPA's megawatt goal for conservation would be based on the Northwest Power and Conservation Council's power plan, and BPA would seek to meet that goal at the least cost.

## Renewables

BPA's proposed development strategy focuses on two main activities. First, would be development of creative Tier 2 renewable products, and, second, continued funding to facilitate renewable resources in the region. Such funding would be at the Tier 1 level, although it would move away from the current management target mechanism. The concept paper calls for tying the amount of Tier 1 renewables' funding to the region's success in meeting Northwest Power and Conservation Council targets.

Renewable products include wind integration services, alternatives to financing or reducing costs of transmission upgrades, grants to offset upfront costs of customer-sponsored renewable research and development projects, and R&D projects that support long-term growth of the renewables market such as wind and solar monitoring.

## Resource adequacy

Currently, the Northwest Power and Conservation Council and BPA are taking the lead on a Regional Resource Adequacy Forum that includes utilities, states and other interests. There is growing support for a regional resource adequacy standard and for a neutral third party, such

as the Council or the Northwest Power Pool, to track compliance with the standard. BPA views resource adequacy as vital to the public interest and has a three-fold proposal.

First, BPA proposes a provision in power sales contracts that could require customers to provide data for adequacy assessments to a neutral third party. BPA would provide the data for its full-requirements customers.

Second, BPA believes that notice provisions for Tier 2 power service products that count toward the regional adequacy standard should be linked to the planning timelines that are agreed to as part of the adequacy effort.

And, third, BPA proposes two power sales contract options for including resource adequacy provisions in its January 2006 Long-Term Regional Dialogue proposal. One option assumes the regional forum succeeds and achieves the following targets: consensus-based adequacy metrics and individual utility targets, a workable adequacy tracking mechanism, and an implementation approach that has regional support. This option would simply reference the need to adhere to the agreed-upon regional adequacy framework. The second option, if the forum is unsuccessful, would be to include contract provisions that establish a definition for measuring adequacy, that specify reporting requirements and that require or incentivize implementation.

## Cost control

BPA recognizes that customers need reasonable assurance of long-term cost control, because they would be making a 20-year commitment to pay those costs. BPA proposes to engage its customers and other interested parties directly in its cost-control efforts. While BPA cannot yield decision-making to other parties, the concept paper does assume cost management groups managed by customers and other interested parties would function actively throughout the 20-year contract period. These groups would not form and dissolve with each rate case, but rather would provide long-term stable membership for maximum effectiveness.

BPA proposes to incorporate the following commitments into its long-term cost management.

- Ongoing transparency in decision-making and financial reporting.
- Participation in a cost management group and other related collaborative forums.
- Partial contractual off-ramps tied to effectiveness of cost management.

## Dispute resolution

The BPA administrator is limited by law regarding decisions he can delegate. As an example, BPA cannot engage in binding arbitration over matters such as setting or implementing rates. With that said, there are issues that can be resolved effectively through mechanisms such as mediation and arbitration, which provide cost-effective and relatively fast solutions. BPA believes the goals of certainty and predictability would be well served by a process that subjects contract matters of factual issues to binding arbitration so long as the arbitration is open to other customers who may be affected by the outcome. BPA also believes the region should explore other alternatives such as non-binding arbitration and third-party fact finders.