REGIONAL DIALOGUE RENEWABLES FOCUS GROUP

NOVEMBER 8, 2004 MEETING NOTES

PARTICIPANTS:

Meeting Room
Steve Oliver, BPA
Elliot Mainzer, BPA
Debra Malin, BPA
John Taves, BPA Public Interest Group Liaison
Al Ingram, BPA
Eugene Rosalie, PNGC Power
Annick Chalier, Public Power Council
Thad Roth, Columbia River PUD
Rachel Shimshak, Renewable NW Project
Angus Duncan, Bonneville Environmental Foundation
Scott Brattebo, Pacific Corps
Tom Bailor, Confederated Tribes, Umatilla Indian Reservation
Stuart Sandler, BPA Writer/Editor Pool

Phone
Tom Husted Columbia REA
Ken Sugden Flathead Electric
Bruce Zimmerman, Umatilla Tribes
Lynn Williams, PGE
Roger Kuhlman and Terry Kelley, Salem Electric
Chris Robinson, Tacoma Power
Tom O'Conner, Oregon Municipal Electric Utility Association
Geoff Carr, Northwest Requirements Utilities
Randy Cornelius and Martha Anderson, Orcas Power and Light
Ken Hustad, BPA Account Exec Spokane
Tom Osborn, BPA, Walla Walla

Introductions
Steve Oliver, Vice President Bulk Power Marketing and Transmission Services, introduced the rest of the BPA team: Debra Malin, Marketing Lead for Renewables, and Elliot Mainzer, recently hired as Renewables Marketing Manager while also heading up the Pricing and Analysis Group supporting trade and foreign surplus marketing.

Today's Goals
Several areas were left open coming out of the close of comment period for the Regional Dialogue, a major one being renewables. This focus group, a broad representation of the customer interest around the region, was not assembled to produce a collective opinion, but to engage independent views and assessments and additional ability to build a regional dialogue

decision process. The meeting was recorded and will go into the regional dialogue record as public comment.

BPA representatives want to explain what they've heard so far, explain how they've modified our regional dialog proposal based on what they've heard so far, explain the existing program briefly and answer questions. They want to hear whether they're going in the right direction and translating what they've heard from the regional dialog into effective renewables policy, and what to emphasize in terms of specific facilitation efforts. This will entail a series of meetings.

Commentary from Public Meetings

Elliot summarized the broad array of commentary from public meetings held all over the region, from legislators, administrative agencies, customers, utility boards, educational institutions, environmental organizations, tribes, steel workers, private citizens and third party vendors. The comments indicated good general support, with customers endorsing the notion that program costs be spread evenly over all different customer classes.

Acquisition (previously coined "anchor tenancy") was probably the issue with the greatest divergence of opinion, everything from "no acquisition at all needed," to "we might consider a very limited amount of acquisition if it made sense or if you were purchasing a project in the front end and then letting your customers grow into it," to "BPA should be doing consistent, rigorous acquisition over the next several years, if BPA doesn't do it no one else will and you should keep renewables in the Pacific Northwest really active."

Transmission was mentioned: The PBL should think of how to make better regional use of transmission infrastructure. SLICE customers, particularly PNGC, commented that if BPA is going to facilitate and perform integration services, do not use the SLICE customer portion of the system--it should not be a system obligation that eventually cuts into SLICE customers system output. Scott Brattebo noted that many comments in the Regional Dialog though not referring to renewables, suggested BPA should sell only the current output of the system and no more, that BPA should not expand the existing Federal System. He noted that these comments apply to all resources including renewables. There were also numerous comments specifically favoring further BPA enabling of renewables, including those from steelworkers saying, "it creates jobs, it's our last hope." Also, a consistent message from requirements customers was their endorsing the transition to facilitation but believing that all customers should have to pay.

Renewable Program Budget

The current renewable program budget for the next rate period was distributed to those in the group. This spread sheet presents the actual line items in Renewables program budget for FY 2005 - 2011. Note that the Renewables program budget has not historically included the renewable portion of the C&RD. Also, the $15 million benchmark (see below) has not included the renewable portion of the C&RD.

The $15M Benchmark

BPA has committed to spend up to $15M/year on renewables. Steve explained the "$15M Benchmark" concept. The $15M renewable benchmark is a management tool used to govern BPA’s investments in renewables. It is an annual spending cap. Direct renewable expenses are included in rates but the $15 million is not, it is an internal benchmark, used as a guide to decision makers. It compares actual renewable expenses against the value of energy produced by the renewable projects. The net difference sets a policy benchmark for BPA's renewable spending. Some renewable expenditures are R&D programs or long-term studies, which don't produce energy---their face value is expensed against the $15 million. But other projects--wind and geothermal--do produce MWh, and those costs are compared to the long-run marginal cost of a combined cycle combustion turbine (CCCT) with the gas price (at this juncture) assumed to be $4.00 per million BTU. The net cost of renewables, in most cases, has historically been above the long-run marginal cost of a CCCT. But may not remain so in the future as gas prices increase. Renewable costs are also offset by revenue produced from the sale of Green Tags and EPP.

Understanding the Benchmark

Steve continues his explanation. When prices are high, renewables may look very attractive and bring back a positive margin. When natural gas was at $1 per million BTU, there can be very little investment in physical resources: the $15 million net policy benchmark fund is eaten very quickly. If BPA spends up to the $15 million benchmark, BPA will be reluctant to incur additional renewable expenses. The $15 M benchmark is not absolutely black and white, nor static because it is measured against the long-run marginal cost of a CCCT, which can be affected by gas prices. We don't want to argue on a daily basis about whether there should be a $6.85 gas assumption or $4.52--it's not productive. That's the usefulness of the benchmark. When there are things BPA can do to better facilitate in the region, or there's a need to acquire resources, we would look to the policy benchmark to understand if we are leaning very heavily on rate issues or if there is room to move.

Randy Cornelius questioned the $21 million level of support mentioned in the handout. Confusion between the $15M benchmark and the new $21M policy statement. Steve explained that BPA is now proposing to take the $6 million commitment that existed in the "R" portion of the C&RD program and regard it the same manner as the $15 million, generating a spending cap of $21 million/year.

How this money should be spent is the question. Steve further explained that the $23.5 million listed in the Budget spreadsheet for FY 2005 is the total expected cost of the renewable program in FY 2005. It includes direct expenditures, not the $15M net number. When these actual expenses are compared with a CCCT and discounted by Green premium revenues, the net cost in FY 2005 drops to $85.4K. In today's market, if we had bought an equivalent amount of energy from a CCCT w $4.00 gas, we would be seeing little incremental cost for the renewable program.

Angus Duncan questioned how often the benchmark would be revisited. Steve said it would definitely happen at rate case hearings, every two to three years, to clarify where RNS policy is headed, as well as at any perceived critical juncture, but nothing firm has yet been agreed on. He further replied to Angus that the $15 million (or whatever number is established) is a flat cap at any particular moment and that depending on how aggressive or conservative BPA needed to be at the moment, the net could ride above or below that figure. The benchmark or cap would tell policy makers whether there is room to do any more. The total cost of the Renewables program will go into rates, but the management target will not. The benchmark is a simple policy tool to tell us whether to accelerate or back off from further investments.

Eugene Rosalie questioned that with two wind projects and one geothermal contract completed, (BPA's original commitment has been satisfied) BPA's obligation seems to have been met and the $15 million seems mostly already to been committed, so how can there be talk of spending more? Elliot referred again to the benchmark--if prices are high, so may be the differential that allows for more spending via comparison with the benchmark. Eugene expressed further concern over the frequency of revisiting the benchmark. Steve said that the rate cases would establish at least at this point a minimum for recalibration. If along the line a MW deficit were discovered, the benchmark would be used to establish which kind of resource could be acquired. Eugene expressed concern for establishing specific language defining determination of the long-run margin, to create more certainty.

Rachel Shimshak understood Steve's explanation that when markets are low, there will be lower enthusiasm for renewables. But she thinks it's important for BPA to always have a program with some amount of activity going on in the infrastructure all the time so that when it's needed, it's there, without having to ramp up or down. She further stated that this scheme adds no money to the mix, but only manages what's already there over time so that some things might be done when there is an opportunity. Steve added that other things could be done via facilitation that might not be as critical to the benchmark, like the firming and shaping of existing products or developing new products, if priced correctly. Those products would hinge on the benchmark because the cost of the services would be recovered. You could even price below cost if the climate included a lot of very high-priced alternatives. The important thing is to maintain the level of commitment in the renewable portion the C&RD as well as the $15 million commitment. How should this be done? Facilitation? Renewable rate discount? Transmission issues? That's the crux of this meeting.

Eugene expressed concern about the new costs listed in the budget spreadsheet as "Support and other Costs". Steve responded that the Renewable program budget (including the support costs) has been reviewed by the Sounding Board for the cost-cutting effort and the budget is bare bones. The R&D items have been there for some time--wind and solar resource assessment, etc.--and, according to Rachel, are much appreciated by small utilities that use that data.

Steve emphasized that BPA won't be able to do acquisitions unless there is a statutory need. If for some reason some reason BPA needs to acquire resources, BPA continues to be interested and has a strong ethical view of renewables and will try to put renewables in that portfolio appropriately. In addition, BPA is always looking at ways to use the system and help others developing renewables at the margin and encouraging them to do that.

Load Growth

Rachel questioned the appropriateness of this approach. Say that some requirements members experience load growth, and look to BPA to meet it. But BPA has a statutory responsibility to look at conservation first and then renewables and on down the hierarchy. So what happens here?

Steve answered that BPA we would look at the statutory direction; if renewables were the least-cost alternatives, all other things being equal and looking at the regional plan etc., that's likely what would be offered. But there would be a lot of alternatives to consider depending on what customers wanted to do. It's a little ahead of the curve on this issue.

Leverage

Eugene said his group is not necessarily opposed to leveraging the $6 million: If it's for large, centralized projects, they 're not interested; if it's for distributed generation, they are.

Transmission

Steve said if there is some really great wind resource area, it's just like an oil field, a well into a wind resource field if you can get a transmission line to it. There are several ways to do it up front--capital, credit to a party that develops a deal with the cost of the transmission, cost of studies, etc.

Policy Restatement

Elliot restated the policy proposal: Spending up to a net of $21 million to support renewables objectives. The $21 million is comprised of the existing $15 million from the renewables fund and the $6 million regional annual renewables spending currently being accomplished through the C&RD program that expires at the end of the current rate period. BPA intends to preserve this $6 million in the next rate period, consulting with customers and others over whether to implement a renewables discount program in the next rate period or instead deploy these funds through other facilitation options or mechanisms.

Mechanics of the $6 Million Addition

Scott questioned the mechanics of adding the $6 million from C&RD to the $15 million. Steve explained that the $6M produces no MWh for BPA and is a renewable rate discount where an incentive is being provided for others to develop renewables. The choice of how to do this is what's at stake--do you want the same kind of program we currently have or something different?

Scott further questioned whether, for those currently spending C&RD money on renewables, in the new program, would there be access to the same amount of money for conservation measures or will it be renewables only? Steve said he envisioned the ability to go to the conservation program or the renewable program to get a discount, or from both. But Tom O'Connor said that was not the message they were getting from Mike Weedall on the Conservation side. Scott replied if the conservation and renewable programs were split and if utilities could not spend all of their money on conservation, they can currently spend it on renewables - he would like to see this flexibility continue.

Steve described that we will not know until October 2006 if the $6M/year R commitment (via the R discount) was actually completed. If not, BPA would take back those dollars from customers who did not spend it and make investments in renewables. At this point in time, there is no continuing commitment beyond that. Steve thinks that it’s a possibility that, from Oct 1 2006 on, if BPA sets up a $6 million program for renewable rate credits, those programs could be separately administered from the conservation program and customers could apply for one or both to get the discounts. The existing Conservation program was set up so that no one had to invest in renewables at all. Everybody could invest in conservation. The total fund was available for conservation. Then, if no one had invested in renewables, BPA would invest up to $6 million in renewables. In splitting them apart, there could be a multiplication depending on how the money was spent in the past or the future. There could be an expansion because the total fund for conservation would be as it was, and then we could possibly put in place an additional $6 million level commitment for renewables. We are thinking about separating the program for clarity, administration, but this needs to be reviewed with the Conservation side if it's not as expressed, and we welcome your recommendations.

Scott asked if, at the end of the first 5 years, the financing carries over into the next five years. Steve said no, the program is an up-front incentive, like a tax credit to make the investment and perhaps defray the cost up front.

Geoff Carr said he had talked to Weedall and appreciates Steve's flexibility. His understanding is that some portion of BPA's $80 million Conservation budget may be a rate credit approach like the C&RD, but without the R; a Conservation rate credit would likely be set up as a use-it-or-lose-it structure, spend it on conservation or turn it over to BPA. There would be an obligation or mandate for conservation under that construct that could not be satisfied by undertaking renewables as is currently the case. Rachel said the Conservation money still had to be paid back, and this is a double hit, so there would be so less investment in renewables. Scott questions this--if he spends on renewables, at the end of the five years, would he still have to pay back the money for conservation? Angus characterized the question as whether it is an additional incremental amount of investment.

Steve said again that further discussion with Conservation needs to happen. The Renewables program, including the form the discount program should take, is still undecided and that is the reason for these meetings. He's not sure that the best way to do the Renewables Discount program is to artificially increase everybody's rates a little to pay for it, give discounts to certain people who do it or not and then tell everyone else BPA will do a backstop on investment renewables, because there may not be a need for energy.

Eugene expressed concern that by separating the programs the potential investment in renewables is diminished. Some utilities are hamstrung in terms of conservation. If they have done a lot of conservation in their service territory and have some money to use and can't use it on Renewables, they turn it back to BPA. A little more flexibility in combining C and R is needed. And $6 million spread amongst a hundred or more utilities is not very much.

Angus disagreed, saying the conservation pot would not be diminished and there is no net loss in flexibility because there would be access to the $6 million in the continued renewable obligation. But Eugene said they would lose flexibility because that conservation money could only be spent on conservation. Solar, photovoltaics, etc., are out of the program. Angus repeated that there is no loss of funding, but the flexibility issue needs to be discussed with Mike Weedall. Tom said that it's hard to know how to proceed with all these pieces so undecided.

Scott asked for clarification on whether the $6 million might not necessarily be positioned as renewable rate discount dollars. Steve repeated that BPA was looking for everyone's input, especially if the geothermal investment does not materialize and the potential for a renewable rate discount is much bigger. Customers could say that not very many utilities can really develop renewables, so only put $4 million into that and use the other two for something else of higher value. BPA wants alternatives put on the table

Rate Credits

Right now there are about 30 participants in the renewables program. Thad Roth asked how the 30 utilities use their rate credits now. Deb said many use it for EPP and it covers a lot of project costs-- a landfill/gas project, a few solar projects, even an RD&D project. Tom said that the most current C&RD report on the BPA web has a summary on page 4 of how the renewables pieces were spent in aggregate by category. Deb will email that out.

Flexibility

Elliot wanted to continue the discussion about flexibility that maybe Mike Weedall doesn't want to be responsible for administering the renewables component. If you took today's existing program and you gave the Renewables program the responsibility for administering the renewables portions of the C&RD program and maintain the flexibility, would that be a huge administrative transitional work burden? Al Ingram said the main difference would be that implementation guidelines would have to be changed, a technical issue about what exactly gets credits for what activity committed. That would just shift to another group. The issue of flexibility is one that customer comments can really influence at this stage.

Scott said Eugene's comment about flexibility is important, so that a utility has the option of choosing one option or the other, or both, without being penalized.

Steve described how Conservation and renewables exist on different planes because of the statutory direction around conservation renewables. Mike is trying to understand how they are going to achieve a certain level of commitment and funding for conservation and funding as a BPA responsibility. Renewables are far more discretionary. If there is need for energy at the margin and it is a preferred resource, we want to develop it (renewables) all things being equal. But it is not dictated to us by the Council or the region to develop a certain level of renewables. So Mike and his staff have to identify extended program details. The renewables rate discount was simply a program funded as part of the $21 million. There are load growth and other issues that may or may not work the same for both conservation and renewables and these need to be sorted out.

Steve reiterated that the functioning of the renewables program is still an open issue, including rates. Rachel hoped that a serious discussion could ensue on identifying what they'd like to see happen with renewables and figure out how much it would really take to fund them. Steve responded that BPA is coming to the region with a $6 million commitment and asking what you'd like to do with it, be it a rate discount or some other format. There is no default position at this point. A major question is still the geothermal project, which will influence a lot of what we can and cannot do.

Customer Preferences
Tom said he would like to see BPA have a renewable product that can be accessed by requirements customers whether it is to meet local or state policy direction or a combination thereof. Some are GTA customers and there are some issues about not being able to get nonfederal power at reasonable rates. Many have other factors making it impossible to make their own renewable purchases. They still want something like EPP, which he understood would be going away in '06. Steve said no, only the renewable rate discount for EPP might go away, not the product itself. Tom would like to see EPP continued. That would take a policy decision and a rate case offering that has not been made yet. Angus commented that, to the extent that utilities, public and private, may be looking at RPS or similar kinds of state-level obligations especially for smaller utilities that don't have easy ability to develop their own renewables, a flexible tool like EPP or TAGS becomes essential. Scott added that the earlier the policy decisions are made, the better customers can plan without losing opportunities.

Elliot began laying out the focus for the next meeting: Clarity on facilitation, and on Conservation policies including obligations, rights and flexibility. Meeting participants should do some homework and help develop specific recommendations. BPA will create some straw proposals for consideration and have them ready for the next meeting as agenda items.

Steve said the extended comment period closes on 11/12. BPA will be drafting a ROD on this in December for the 07-011 period. Comments for this period will be included. He thinks it's not possible after December to keep on working on whether or not there will be a rate discount program, the mechanics, etc. So these meetings are serving as the high-level policy group. The focus today was sufficient funding levels, benchmark mechanics, checks and controls and breaking apart Renewables from the C&RD. Elliot said it's consistent with the ROD process that some of these questions remain open beyond the December timetable. This is front burner stuff for BPA.

The next meeting is scheduled for November 19th at 1 p.m.