

REGIONAL DIALOGUE TECHNICAL WORKSHOP NOTES
Wednesday A.M., January 8, 2003
BPA Rates Hearing Room, Portland, Oregon

Approximately 20 people attended, with one person joining by phone.

Requirements Products

Carolyn Richardson (BPA) went over a set of principles for requirements service. The concept that underlies what we're putting forward is that we do not want to increase or shift costs, she explained.

How is principle #1 (stranded costs) different from principle #2 (avoid costs that raise rates to other customers)? Michael Early (Alcoa) asked. They are similar, but there could be situations in which we have stranded costs that do not get into customer rates, Tim McCoy (BPA) responded.

Steve Weiss (NWECC) asked about the principle pertaining to renewable resources. Chuck Forman (BPA) said BPA is considering whether to consider a different notice period for adding renewables versus other types of resources. The issue here is will the notice period be different based on the resource type, Tim Johnson (BPA) clarified. We could do something different in order to encourage development of renewables, he indicated. Maybe you need two rules for renewables based on whether they are added to meet load growth or not, Weiss suggested.

Rettenmund pointed out that BPA will acquire a portfolio of resources to serve its own load growth, and there could be "interplay" between that and any notice period. We do not have a preconceived notion about the portfolio we will build for providing default load-growth service, Forman said. Customers who want to rely on us for load growth need to give us a signal about whether they want us to rely on the market, he added.

We need to have a principle regarding the alignment of BPA's purchase strategy and the customers' commitment on load growth, Jim Litchfield (IOUs) suggested.

How do you define load growth? How do you decide what is load growth, as opposed to a swing in load? Early asked. That may be difficult to identify, McCoy said. We've said we'd leave it up to the Account Executive to work out with the utility to determine how much load it can cover with a new resource, as long as the utility meets the notice provision, he explained. We were thinking there would be "some rough calibration" between load growth and the notice provision, Rettenmund added. It has to be rough, but it's hard to define at all unless you establish the baseline, Weiss pointed out.

Don't you need "a bright line" between the part that is under the base service and the part that is served under load growth? Early asked. Yes, you have to identify what is load growth, to be charged the load growth rate, and what is base service, Forman responded.

I'd like a bright line so utilities can see the advantage of using distributed generation or load controls, Weiss commented. And you want every kWh from load growth to see the tiered price, he said.

There is a difference of opinion on that, Geoff Carr (NRU) pointed out. As long as there is enough federal resource, we do not support tiered rates, he stated.

You may need to add something to the principles about the need to consider how long it takes to build or acquire a resource, Lyn Williams (PGE) suggested.

Adding a new resource "may be lumpy," Weiss pointed out. You may have to dip below the load-growth line since a utility can't meet its load growth exactly with a new resource, he stated.

The overarching principle here is that there be no cost shifts between customers, Erick Johnson (PNGC) said, adding that some approaches to adding resources could complicate ratemaking. If a utility makes a resource decision with BPA, it has to cover those costs and not expect other customers "to bail it out," he stated.

I don't agree with the statement about "lumpiness," John Saven (NRU) stated. Customers could develop a resource to meet load growth and sell the residual in the market – we weren't envisioning in our proposal "dipping into base load," he explained. So you would have customers take the residual to market, Rettenmund clarified. Yes, so you don't get into cost shifts, Saven replied.

Adding a resource to meet load growth shouldn't provide "an off-ramp" for a purchase from BPA, Keith Knitter (Grant PUD) stated. That would create cost shifts, he said.

Would BPA be the default supplier if a utility fails to develop a planned resource? Weiss asked. There would have to be "a consequence" if things don't work out in order to encourage people to follow through if they commit to develop a resource, Rettenmund indicated. There should be a product BPA provides at "a non-punitive rate" under those circumstances, since resource development could fail for a legitimate, unavoidable reason, Erick Johnson pointed out.

Early asked if there would be a notice period to get back on the system. Could you give 120 days notice and get back on? he inquired.

Saven said customers want the right to consider serving their load growth with non-BPA resources, but the idea is not to have customers "flip-flopping" on and off the system every 120 days. The commitment to take some amount of load growth off the BPA system should be a final decision for the duration of the 20-year contract, he said. A customer with a generating resource that has a long life could decide to take the load off for the life of the resource, Saven suggested. Tim Johnson (BPA) pointed out the need to be consistent with federal policy under 5(b).

If a customer wants to apply a dedicated resource to load, it is there for the duration of the contract, Tom Miller (BPA) pointed out. That is the only way to remove the uncertainty for BPA and avoid a stranded cost problem, he added.

There was more discussion about whether the customer could make a short-term purchase from BPA or whether the customer would be obliged to find a non-federal replacement resource if its original resource did not work out. Is there agreement that there should be flexibility to bring a non-federal resource on, but if a customer returns to the system, the costs should not be born by all customers? Rettenmund asked.

If you build a hard asset, it's not just for this contract, but for the life of the asset, Scott Brattebo (PacifiCorp) stated.

I'd suggest a default product that is not based on the BPA system, but for which BPA would be the purchasing agent, Weiss said. A default is "politically necessary," he added. There ought to be a default service, especially for small utilities, that provides a non-punitive backstop; but it wouldn't be service from a BPA resource, so the costs don't come back to BPA, Weiss explained. Are you suggesting a brokering arrangement? Miller asked. Yes, Weiss responded.

What are you thinking in terms of "putting renewables on a pedestal"? Litchfield asked. He asked what would happen if the encouragement provided by "C&RD II," means a utility develops resources beyond its load. Is that okay? Litchfield inquired. That's why we broached having a 200 MW limit, Miller responded. The third principle pertaining to renewable resources is so "we don't lose track of the issue," Foreman said, adding that issues related to integrating a renewable into the federal system also need consideration.

Richardson read BPA's handout on the responsibility for serving load growth. Litchfield pointed out that the joint customer proposal does not provide load growth for block. It's because of the difficulty in setting a rate "that doesn't shift costs," he said. You would have to find a way to protect the requirements customers, Erick Johnson agreed. BPA and a customer "can do anything they want, as long as it doesn't shift costs," he added.

Why can't the block purchaser be treated the same as other customers? Knitter asked. In the customer proposal, we try to clarify and limit BPA's obligation to acquire resources outside of federal resources, Litchfield stated. The idea of the block growing is inconsistent with Slice, he added. In our proposal, with a block purchase, you have one time to say what you want, period, Litchfield said.

As I understand it, one of the thrusts of the customer proposal is to limit the universe in which BPA has to meet load growth – it meets load growth for full-service customers, but otherwise, it does not, Rettenmund said.

One of our principles was that BPA would know its obligation to serve, Williams explained. You would have "a load-obligation box" that you know the size of, she added.

The customers think there will be a surplus in 2007, Wood said. If the block has load growth, a fast-growing requirements customer could purchase 1 MW of block and come back for all of its load growth, he said. My thinking was that with the block, you take a block amount in year one, and that's it, Wood added.

I am not advocating for load growth with the block, Saven stated. I do not want to see the surplus in 2007 absorbed by block customers, he said.

Is there agreement that the block is a flat number of megawatts set at the beginning of the contract? Forman asked. It could be shaped, but it does not step up, he added.

The utilities' proposal was to offer mainly Slice to reduce BPA's footprint in the market, with a full requirements product for small customers, Paul Murphy (Golden Northwest) responded. But now "there is not so much appetite for Slice," he continued. If block is going to be the primary product and it includes load growth, how does that reduce BPA's presence in the market? Murphy asked. This discussion is quite different from the principles in the joint proposal, he added.

The discussion moved to BPA's obligation under 5(b)(1) and whether BPA could decline to serve a customer request for load growth. We're talking about products, Litchfield responded. If you want to have load growth, you get full requirements, he stated.

If a block purchaser says it needs supply, we'd have to say yes, Miller responded. Does the statute say you have to offer block with load growth? Litchfield asked. The only way we are relieved of the obligation to serve is for the customer to bring a resource, Miller said, adding that there would be a legal risk if BPA were to say no.

Wood questioned whether there would be a problem so long as BPA offers a full requirements product, as set out in the statute. If a customer wishes to do something that is an alternative to full requirements, it seems you could say you won't provide load growth; if the customer wants load growth, they take full requirements or they don't sign, he explained. If you offer the full statutory requirement, can't other products have strings attached? Wood asked.

The uncertainty of estimating the cost of serving load growth is "a bigger problem" than adding 2 MW to a block for the next 20 years, McCoy pointed out. We should have the opportunity to get the price right on this, he added. I don't know if it's necessary to say that the block won't include load growth, McCoy said. This isn't an issue of price, it's an issue of footprint, Williams responded.

How many customers are actually here talking about this? Knitter asked. You aren't getting a lot of input from requirements customers, he pointed out.

The discussion moved on to the topic of adding non-federal resources. Richardson read BPA's draft provisions and several issues were raised, including how a variable resource

like wind would be treated (BPA would be looking for firm capability) and how the conservation credit would be applied (we need to think that through).

Richardson said BPA wanted to hear from participants on whether the customer's ability to self-serve load growth should focus only on future load growth or include both future and past load growth. We want full requirements customers to have the ability to serve their load growth at the earliest possible date, Saven said. The simplest way would be to have it prospective only, Rettenmund commented.

With regard to the period for providing BPA notice to serve load growth, Miller said there are two issues: what is a reasonable time period for BPA to get the notice? and how long will BPA supply the load growth? It's both when the notice comes and what the notice tells us, he stated.

You make a purchase deal that is based on the length of the commitment; if it's 120 days notice, you only make a 120-day purchase, Litchfield suggested. If you go with 120 days, you'd have a very changeable rate for load growth, McCoy said. Rettenmund noted there is interplay between the length of the notice period and acquiring resources. For renewables, we don't have to work under the same paradigm, Weiss suggested.

We may not have enough time scheduled to deal with all of these issues, Erick Johnson said. We probably won't resolve them, but we'll get enough discussion to help us put together our proposal, Rettenmund responded.

Adjourn: 12:05 p.m.