

factsheet

July 2007

BPA's Long-Term Regional Dialogue Policy paves the way for a reliable electrical future

For 70 years the federal power marketed by the Bonneville Power Administration has been a cornerstone of the Pacific Northwest economy, supplying the nation's consistently lowest-cost power. Given the federal power system's importance, the role BPA will play in the region's future power supply has been the subject of keen interest among a wide variety of stakeholders within the region. The pivotal date for that "future" is 2011, the year BPA's current wholesale power contracts expire.

BPA's future role has been the subject of a decade of discussions covering a wide variety of issues currently known as "the Regional Dialogue." Initially, the region worked on a Short-Term Regional Dialogue Policy to cover fiscal years 2007 to 2011. BPA's role beyond 2011 is described in the "Long-Term Regional Dialogue Policy" (Policy) released on July 19, 2007. The Policy comprises an interdependent package rather than a set of discrete elements that can be mixed and matched. This is true also of the parts that will be determined in follow-up processes. All parties have made significant compromises that must be retained for the Policy to hold together. If a major piece of the package cannot be implemented, modification of decisions and adjustments to other aspects of the Policy could become necessary.

The focus of the Regional Dialogue has been to define how BPA will market its wholesale power after 2011 and to ensure it does so in a way that meets key regional and national energy goals. The federal system's clean, renewable hydropower has become increasingly valuable as the nation focuses on energy independence and climate change.

The timing is critical if BPA's customers are to have ample time to make choices about securing an adequate, long-term power supply. Only four years remain before current wholesale power sales contracts expire. It will take at least another 15 months to negotiate new contracts and put in place a long-term tiered rate methodology. The goal is to have new 20-year power sales contracts signed by December 2008. A 20-year contract time span will give the long-term certainty necessary for the major infrastructure investments the region will need.

What will change in the future?

The Policy includes a new tiered rate approach that provides each public utility customer with a High Water Mark (HWM), which will define its right to buy power at a Tier 1 rate. The Tier 1 rate will be based on the cost of the existing federal system with very little augmentation. If preference customers choose to buy more power from BPA beyond their HWM, this power will be sold at a Tier 2 rate set to fully recover BPA's costs of securing additional resources to serve this load.

Customers may want to choose other options to BPA's Tier 2 power. For example, they may wish to acquire their own resources or purchase power on the market. This Policy provides customers more choices as to how to serve their load growth. Given the importance of these decisions, BPA wants to complete the contracts as soon as possible to assure adequate resources are developed and/or purchased for the post-2011 period.



Highlights of the Regional Dialogue timeline

- **April 2002:** BPA's Pacific Northwest electric utility customers submit a "joint customer proposal" to BPA. The proposal focuses on settling outstanding litigation on the Residential Exchange Settlement Agreements signed in 2000 as well as on determining how to market federal power and distribute the costs and benefits of the Federal Columbia River Power System in the region.
- **June 2002:** Although there had been previous discussions about BPA's future, the Regional Dialogue officially begins as BPA and the Northwest Power and Conservation Council jointly sponsor a public process on how BPA should market power in the future.
- **July 2004:** BPA releases a short-term Policy Proposal on its power supply role for FY 2007-2011.
- **August 2004:** The Public Power Council, which represents most of BPA's public utility customers, proposes an approach for BPA's allocation of federal power.
- **February 2005:** BPA releases a "Short-Term Regional Dialogue Policy" and Record of Decision for its power supply role in fiscal years 2007-2011. This Policy addresses near-term issues and adopts a long-term policy to limit BPA's sales of firm power for its preference customers' firm requirements loads at its lowest-cost rates to approximately the firm capability of the existing federal system.
- **May 2005:** The Northwest Power and Conservation Council releases its Fifth Power Plan, which includes a chapter on "The Future Role of BPA in Power Supply."
- **September 2005:** BPA releases a "Concept Paper" outlining its thoughts about its power supply role after FY 2011 to stimulate collaborative regional discussion.
- **April 2006:** The Public Power Council submits the "PPC Additional Allocation Recommendations," which BPA adopts, with some further clarifications, into its Policy Proposal.
- **July 2006:** BPA releases the "Long-Term Regional Dialogue Policy Proposal," which incorporates public comments received on the Concept Paper and further refines the agency's position on its long-term power supply role.
- **July 2007:** BPA releases its "Long-Term Regional Dialogue Policy" and record of decision.

What this Policy accomplishes

The Regional Dialogue Policy is a collection of policy components that, taken as a whole, lays out how BPA will sell its wholesale power in the post-2011 world. Once the Policy is implemented through new 20-year contracts and rates, it will pave the way to achieve some very significant goals, including the following.

A driving force throughout the Regional Dialogue has been the need to ensure the Pacific Northwest has adequate electric infrastructure to meet future economic and population growth. Such infrastructure is

critical if the region is to avoid the extreme market volatility that occurred during the power crisis of 2000-2001. By defining what amount of power will be available at Tier 1 rates, BPA is providing the clarity utilities and other resource developers need to make decisions about developing and or acquiring new power resources.

By signing 20-year power sales contracts, utilities will have the long-term certainty needed to back up financial commitments for new resources that have lengthy capital recovery periods.

Equally important, the Policy also promotes low and stable BPA power rates, which are critical to the Northwest economy. The Policy will keep BPA's Tier 1 rate low by minimizing the amount of augmentation costs included in Tier 1. Historically, these costs have been the greatest driver of BPA rate increases.

A low and stable Tier 1 rate also will greatly enhance BPA's financial stability and will significantly reduce any future risk to BPA's ability to make its payments to the U.S. Treasury. Long-term take-or-pay commitments from customers add further assurance that BPA will be able to make those payments.

Fish and wildlife should also benefit from this increased stability. The Tier 1 rate, which covers the costs of BPA's fish and wildlife programs, will be less vulnerable to the pressures that have caused past budget concerns. BPA will not have an obligation to buy power to serve growing loads and meld the costs of this additional power with the costs of the existing federal system, a practice that at times has contributed to pressure on program budgets. Additionally, the assurance of adequate electric infrastructure reduces the likelihood of another power crisis and the pressures on BPA finances and operational decisions that come with such crises.

The Policy also includes a number of actions to advance conservation and renewable resources along with enhancements to ensure goals are met. It continues BPA's commitment to ensure development of its share of all cost-effective conservation and renewable resources consistent with the Northwest Power and Conservation Council's power plan.

What the Policy covers

Following is a brief summary of the Regional Dialogue Policy.

New 20-year contracts and tiered rates: BPA will develop new 20-year power sales contracts along with a long-term Tiered Rates Methodology. Through the contracts and rate methodology, each public utility will get a High Water Mark (HWM) which defines its

right to buy power at a Tier 1 rate based on the cost of BPA's existing system. Power above the HWM must be purchased from new nonfederal resources or from BPA at a higher rate reflecting BPA's full cost of acquiring additional power. BPA will not subsidize its Tier 2 power rate with its existing system, but will otherwise make its best efforts to provide low-cost Tier 2 options for customers who choose not to secure their own resources to meet load growth.

New publics and tribal utilities: BPA will make augmentation purchases, if necessary, to supply up to 250 average megawatts at the Tier 1 rate to new publics, including new and existing public body tribal utilities. This will cover the reasonably foreseeable needs to serve new public utilities without reducing the availability of power at the Tier 1 rate to existing public utilities. Special provisions are made in the Policy to address the unique challenges of tribal utilities.

Augmentation: BPA will purchase power to augment the existing system by up to 300 average megawatts, if needed, to meet public utility loads at the Tier 1 rate. This is roughly a 4 percent increment to the existing system and is in addition to any power augmentation for new publics.

Product choices: BPA will offer customers three product choices: Load-Following, Block and Slice. Only the Load-Following product will include services to follow the actual loads a customer experiences.

Slice: The Policy provides for a modest increase in the amount of power sold under the Slice product from the current 22.6 percent to as much as 25 percent of the power available from the Federal Base System. The Slice product will be refined to include modest changes to within-hour flexibility rights and to more accurately and fairly share operational flexibility and limitations.

Cost control: BPA will institute a regional cost review to give customers and other stakeholders plentiful and meaningful opportunities to provide input to BPA on its costs.

Dispute resolution: The Policy responds to customer requests for robust dispute resolution mechanisms that have greater reliance on third-party arbitration for disagreements than occurs today. It lays out guidelines for dispute resolution, while stressing that final determination of the appropriate mechanism for particular issues must be done in conjunction with development of the power sales contracts.

Conservation and renewable resources: Under the policy, BPA commits to work in partnership with its public utility customers to achieve public power's share of regionally cost-effective conservation and renewables. In future rate cases, BPA will propose to recover conservation and renewables facilitation costs in the Tier 1 rate.

Resource adequacy: The Policy stipulates that BPA customers will be required to provide their load and resource data and resource development plans necessary to track implementation of the voluntary resource adequacy standards adopted by the Northwest Power and Conservation Council.

Low Density Discount (LDD) and Irrigation Rate Mitigation (IRM): The Policy commits BPA to propose stable and predictable LDD and IRM programs in future rate proceedings and to propose an LDD approach that avoids biasing customers' choices between buying power at a Tier 2 rate from BPA or power from nonfederal resources.

Transfer Service: The Policy addresses several Transfer Service issues that were identified in the Agreement Regarding Transfer Service signed in April 2005. These issues include supplemental guidelines to the Transmission Services' direct assignment guidelines, quality of service, administrative roles and responsibilities, ancillary services, transfer of nonfederal power, service to new customers and annexations.

What's changed since the proposal?

Public comment on the Policy Proposal published in July 2006 led to significant changes in the final Policy, including the following.

The HWM calculation has been adjusted to account for changes in consumer-owned generation amounts beyond 2012. Consumers with cogeneration facilities will have a one-time election to commit the output of the cogeneration facility to reduce load at the industrial facility or to sell the output in the market. Should the consumer elect to sell the output in the market, the utility HWM will be increased by the amount that offsets load in 2010.

The four public utilities that sold their shares of the Centralia coal plant in 1999 will have HWMs high enough to cover the load formerly served by that plant providing that the tiered rates structure and BPA's new contracts for all customers are put in place.

The Proposal did not provide for unique provisions or exceptions for a new tribal public utility. The final Policy commits BPA to reserve 40 aMW of Tier 1 rate power (out of the 250 aMW total available for new publics) for the expansion of new and existing tribal utilities.

Consistent with the Proposal, BPA will adopt a long-term cost control process, with modifications suggested in comments.

The final Policy provides a greater HWM increment for conservation achieved through BPA programs prior to 2011. This change addresses concerns that the Policy Proposal was not robust enough to ensure conservation goals were met. BPA will set conservation targets to be accomplished in partnership with public power for post-2011 as a proportion equivalent to all of the regional public load, and BPA will count conservation achieved by its customers toward that target.

As an enhancement to renewable resources, the final Policy commits BPA to provide the necessary integration services to customers who wish to acquire nonfederal renewable resources to meet their load growth. Additionally, BPA plans to design its renewable resource efforts to complement states' initiatives.

What policies have not been included?

Two major policy components not in the Long-term Regional Dialogue Policy include the level of benefits to be provided to residential and small-farm consumers of investor-owned utilities and service to the direct-service industry aluminum plants. While questions about transmission service are not included, they are being addressed in other venues.

Residential exchange: BPA's goal is to assure the residential and small-farm consumers of IOUs receive a fair and reasonably stable share of the benefits from the federal system over the long term, consistent with law, that will parallel the certainty obtained by public utilities. In light of recent decisions by the U. S. Court of Appeals for the Ninth Circuit, this issue is not in the Regional Dialogue Policy.

Service to aluminum smelters: BPA has not yet finalized its decision on providing service to the direct-service industries. Discussions of this issue were delayed due to the May 3 Ninth Circuit Court ruling. BPA is continuing to work to develop a framework for post-2011 power or financial benefits for DSI customers and hopes to complete that work in the near future.

Transmission considerations: Customers have raised questions about access to BPA transmission services for their long-term Regional Dialogue power purchases and for nonfederal resources to serve their loads above the level served at a Tier 1 rate. BPA's Transmission Services group has begun a public process to address these concerns with customers.

The Policy also sets direction on a number of issues concerning Transfer Service, including policy direction that provides parity between purchasing federal power from BPA at a Tier 2 rate or power from a nonfederal resource.

What's next

With publication of the Policy and Record of Decision, BPA will immediately begin working out implementation details. There are significant steps that

must be taken for BPA's decision-making process to be concluded. For example, a section 7(i) rate process must be conducted to establish the long-term tiered rates methodology, followed by a separate 7(i) process to set the rates. New contracts must be negotiated and drafted, released for public comment and, ultimately, executed. BPA must also make net requirements determinations for its customers.

There are also details to work out on changes to current policies such as the 5(b)/9(c) policy, determination of net requirements loads and calculations of contract high water marks for each customer (to distinguish service at Tier 1). BPA also needs to address how it is going to implement the cost review and dispute resolution processes.

BPA must also complete development of specific products and services. While the Policy establishes three major power products (Slice, Block and Load Following), the detailed structure of those products is being worked out. BPA also must work out details in areas such as irrigation mitigation and low-density discounts.

BPA will be conducting several follow-on processes to work out these implementation details. The goal is to sign new 20-year power sales contracts in late 2008 in time for regional utilities to arrange how they will receive power beyond what they have requested from BPA.

Regional input continues

The overall Regional Dialogue Policy benefited enormously from input from regional stakeholders. The Policy reflects intense collaboration, hard-fought negotiations and, ultimately, compromise. The Policy also provides for further customer and constituent involvement in important implementation issues such as developing a tiered rates methodology, contracts and a product catalog.

BPA also intends to look broadly at long-term financial policy issues in a financial plan update, including the need for and sources of capital, BPA's overall debt structure, the appropriate Treasury

Payment Probability standard for rate-setting and the best uses of high net secondary revenues when they occur. BPA intends to complete this financial plan update before the end of fiscal year 2008. This will allow the Policy to be updated before the deadline for signing new long-term power sales contracts. BPA will provide for public involvement on all of these issues.

For more information

Go to the following Web sites.

Long-Term Regional Dialogue Policy

www.bpa.gov/power/pl/regionaldialogue/07-19-07_RD_Policy.pdf

Record of Decision

www.bpa.gov/corporate/pubs/RODS/2007/Long_Term_RD_ROD.pdf

Fact sheet

www.bpa.gov/corporate/pubs/fact_sheets/07fs/fs071907.pdf

To order copies of documents call: (800) 622-4520 or (503) 230-7334.