



SPRINGFIELD UTILITY BOARD

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December 12, 2003

Mark Walker  
Director of Public Affairs  
Northwest Power & Conservation Council  
851 SW 6th Avenue, Suite 1100  
Portland, Oregon 97204-1348

Re: Future Role Of The Bonneville Power Administration – Doc. 2003-18

Dear Mr. Walker,

Springfield Utility Board (“SUB”) appreciates this opportunity to comment on the future power supply role of the Bonneville Power Administration (“BPA”). SUB is a municipal utility that serves approximately 30,000 electric customers within the City of Springfield, Oregon. While SUB often represents itself in public processes such as the Subscription process and various rate cases, it also seeks to reach agreement between interested parties in the region.

The current Settlement proposal, crafted jointly by Investor Owned Utilities (“IOU”) and Public Power, before the region is of paramount concern to SUB at this time. The Northwest governors and the various delegations have endorsed the Settlement and SUB recommends that the Northwest Power and Conservation Council (“Council”) step forward and take a leadership role in resolving the Settlement issue. Silence is not productive. Nor is expanding the number of issues regarding BPA’s role. Settlement should be at the forefront of issues to be advocated by the Council and be resolved by the region in the near term. Lack of leadership on this issue may undermine the Council’s ability to move forward on resolving other aspects of BPA’s role in the future. SUB strongly encourages the Council to set aside the broader discussion of BPA’s role and take a stronger role on the regional Settlement.

**I. Question 1: Do you think the analysis of the problems and issues presented in the paper is accurate? If not, how is it inaccurate?**

The problems and issues presented in the paper presented by the Council are generally appropriate; however, SUB encourages the Council to expand the perspective presented in the paper, as described below.

**A. The Focus On Bonneville**

Page 5 of the Council's paper begins the discussion of "the problem". Much of the focus is on Bonneville's vulnerability and "how Bonneville has historically chosen to implement its obligations." Bonneville's decisions are driven, to a large degree, from regional input – including input from the Council. The Subscription process and the WP-02 rate cases are two examples where the framework was built on the outcome of the Comprehensive Regional Review (a process sponsored by the Council). In the more distant past, Bonneville's participation in the Washington Public Power Supply System nuclear projects was driven by a variety of factors, including overstated load growth projections such as those provided by utilities through the Pacific Northwest Utility Coordinating Council (PNUCC). As a result, BPA issued a notice of insufficiency, which drove the region to seek additional resources. The current Council paper appears to assign the blame on decisions made by Bonneville when accountability is shared by the entire region. It has been SUB's observation that the region tends to point the finger at BPA when things are perceived to be going wrong, even when BPA may only be part of the issue. Rather than just focus on what is wrong with BPA due to "BPA decisions", the focus should also be on BPA's success in light of (or in spite of) regional direction as well as actions taken by others in the region.

**B. BPA's Financial Picture**

The Council points to Bonneville's high fixed costs for its debt as exacerbating BPA's vulnerabilities. While debt load does impact financial flexibility, according to the Energy Information Administration BPA's long-term debt load is 77% of its total assets in 2002<sup>1</sup>. While this is a high percentage, it is not unusual for a federal power marketing agency to have this type of debt structure. The Tennessee Valley Authority's long term debt, for example, represents 71% of its total assets<sup>2</sup>. Some consumer-owned utilities in the region have, or have had in the recent past, higher debt relative to assets than BPA.

Furthermore, BPA's high debt structure is nothing new and actually has improved over time. In 1990, BPA's debt represented 80% of its total assets<sup>3</sup>. From 1990 through 2002 BPA's net plant increased 35%. In addition, many of BPA's financial obligations are payments to other entities that spend the money on infrastructure development (e.g. Corp and Bureau, Fish & Wildlife, Energy Northwest). These investments may not show up on BPA's balance sheet, but BPA is investing in the region.

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<sup>1</sup> In 2002, BPA had total assets of \$11.2 billion and long term debt of \$8.6 billion. See Energy Information Administration Form 412.

<sup>2</sup> In 2002, TVA had total assets of \$30.2 billion and long term debt of \$21.4 billion. See EIA Form 412

<sup>3</sup> In 1990, BPA had total assets of \$10.4 billion and long term debt of \$8.3 billion. See EIA Form 412

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The region, through rate cases, has directed BPA to give priority to low rates at the expense of carrying a high debt load and modest investments in plant. For good reason - BPA's prices for wholesale products and services are extremely competitive and northwest power costs remain lower than the national average. BPA's undelivered, shaped PF rate in 2002 is 41% higher than the delivered shaped PF rate in 1990<sup>4</sup>. This is only slightly higher than the change in the Consumer Price Index over that time<sup>5</sup>. Over that same period, the weighted average retail rate for consumer-owned utilities in Washington and Oregon increased by 70%<sup>6</sup>. For customers that purchase much of their power from BPA, power costs represent approximately 60% of a utility's total cost. This resulted in (at most) BPA contributing to 35% of a regional utility cost increases over this thirteen year period<sup>7</sup>. Measuring only the period from 1990 through 2000, BPA's rates increased by 4.4% while consumer-owned utility rates increased by 23.5%. BPA's lower rates translated into increased financial flexibility to utilities. In some cases, lower BPA energy costs allowed other utilities to have modest rate increases and to increase utility plant or to reduce long-term debt.

Does SUB support efforts to make BPA more efficient? Absolutely. Should BPA be a scapegoat? Absolutely not. Not only do the facts point to BPA not being the primary problem regarding regional power costs, promoting (or being silent to) "BPA bashing" will doom any process to discuss BPA's future role before it even starts. The Council should carefully review all of the facts when presented with representations of BPA's past actions.

### **C. Hydropower and Market Vulnerability**

The Council correctly points out the negative correlation between hydroelectric generation and market prices. BPA has dealt with this issue for quite some time. It is only the more recent market volatility (which has subsided) that has exposed the problem of BPA overselling its system. The recent volatility was due to a variety of factors - including abnormally low hydro conditions, low power system reserve margins in the West, high gas prices, and market manipulation. BPA has traditionally established its load/resource balance under the assumption of critical water conditions. BPA is predominantly a hydro-based system with the benefit of low fuel costs and the risk associated with variable surplus revenues.

However, the Council's assertion that hydropower and market risks played a large role in BPA's financial crisis of 2002-2003 overstates the impact of the hydro/market relationship and understates the issue that BPA oversold its system in the Post 2002 period and purchased power and implemented a costly curtailment program to mitigate its long term future obligations during the energy crises.

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<sup>4</sup> See BPA's historic PF rates. <http://www.bpa.gov/Power/psp/rates/previous/index.shtml>

<sup>5</sup> According to the Bureau of U.S. Labor Statistics, the annual Consumer Price Index for all urban consumers was 130.7 in 1990 and 179.9 in 2002 - a 38% change over this period. 1982-1984 = 100

<sup>6</sup> Based on EIA Form 861 - Annual Electric Power Industry Data

<sup>7</sup> .60 times .41 divided by .70

## **D. Asymmetric Obligations**

### **1. A More Competitive and Volatile Market?**

The Council states that the market has become “more competitive and volatile”. While market prices are higher, market volatility has subsided to pre-2001 (pre-energy crisis) levels. Competition has also dried up with many players having exited the market. During the latter part of the 1990's the market was generally lower than BPA and that was referred to as more competitive. Today, the market is equal to or higher than BPA prices. It is unclear what the Council means by the market being “more competitive and volatile”. Is BPA being lower or higher than the market more “competitive”? Using the definition that competition means lower market prices, higher liquidity, and diverse product offerings, SUB generally disagrees that today's wholesale market is more competitive today than it was in the 1990's. As a result, SUB generally disagrees with the argument to fundamentally change the way BPA has traditionally conducted business on the basis of market forces.

### **2. Legal Obligation to Buy**

The Council states that BPA public customers do not have a legal obligation to buy from Bonneville until they have signed a contract. To SUB's knowledge, no customer, regardless of type, has a legal obligation to buy from BPA until they have signed a contract. SUB suggests that this language either be removed or applied to all customer types, not just public customers. It is unclear why the Council chooses to single out public customers with this type of language in the current Council document.

### **3. Contract Obligations**

Not only are there legal obligations to serve certain customers, currently many customers hold 10-year contracts (through 2011) which specify service at the lowest PF rate. It is SUB's expectation and assumption that any reference to tiered rates for customers that hold 10-year contracts is proposed for after 2011 and not before<sup>8</sup>.

### **4. Publicly-Owned Utilities**

It is important to note that publicly-owned customers of BPA have an investment in BPA's system. Public customers have paid a majority of BPA's costs through rate revenues, including repayment of federal debt associated with hydropower investments. Public customers are also generally financially healthy with a strong, diverse customer base and limited unplanned load fluctuations. Unless classified as a Contracted For-Committed To (CFCT) load, large increases in load in excess of 10 MW are not served under BPA's PF rate schedule.

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<sup>8</sup> SUB notes that the Council recognizes this issue as well in footnote 7 of its paper.

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BPA's legal obligation to sell to publicly owned utilities has significant lead and lag times associated with load entering and leaving BPA service due to notification requirements and rate design. For example, while the Council mention's that customers petitioned BPA to be allowed to diversify in the 1990's, the Council failed to mention that some customers, such as SUB, removed load from BPA following contractually allowed notification requirements which were conditioned on BPA's White Book which showed a negative load-resource balance at the time. SUB removed load because BPA was in deficit and the market provided a viable alternative. Current language in the Council paper implies that public customers just scurried away from BPA on a whim.

In addition, Federal law requires that certain contracts that BPA holds with entities outside the Pacific Northwest contain language that allows BPA to recall energy and capacity to serve consumer-owned utilities. BPA's exposure to the market due to service associated with consumer-owned utilities is limited in this respect.

## **5. Direct Service Industries**

Direct Service Industries ("DSI") have shown significant financial instability, an inability to pay their bills, and the willingness to dramatically increase or decrease levels of BPA service due to economic reasons – leaving the rest of the Northwest customers holding the bag. The DSIs also placed pressure on BPA in the 1990's and, unlike consumer-owned utilities, signed contracts that specifically protected them from stranded costs and allowed them the flexibility to resell federal power in a high priced market. Therein lies a significant fundamental difference between DSIs and Public-Owned Utilities. Publicly owned utilities have the obligation to serve customer load and only indirectly influence BPA service levels. DSIs have the unilateral ability to modify load and directly serve themselves. Lastly, DSIs are private companies that can, and have, declared bankruptcy and relieved themselves of obligations to BPA should it suit their needs. These are important issues when discussing the financial risk associated with service to different customers.

The Council's discussion regarding the "benefits" of DSI service for system reliability is not applicable to power supply issues. This issue was discussed at length in BPA's power rate cases. System reliability is a transmission issue. Other benefits discussed by the Council have associated costs that the region can no longer afford. For example, along with the resale of federal power during high priced markets in 2001 at the expense of other customers, DSI service costs upwards of \$660 million to \$1.4 billion in excess costs per year<sup>9</sup>.

## **6. Investor-Owned Utilities**

The Council's document states that, "for investor owned utilities, Bonneville has an obligation to provide benefits to existing residential and small farm customers..."

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<sup>9</sup> See BPA's Supplemental WP-02 Rate Case.

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Later, the Council's points out that in order for BPA to have an obligation under the traditional exchange methodology, investor-owned utilities must first demonstrate that their average system cost exceeds the RL rate. In addition, in past application of exchange benefits the annual accounting of eligible benefits was allowed to be negative and accumulate a negative balance. Finally, the 7(b)(2) test, places a rate ceiling on power sold to consumer-owned utilities associated with the exchange. Like consumer-owned utilities, BPA's obligation only extends to the degree an investor owned utility asks for any benefits. SUB suggests the following language on page 6 (third bullet) is changed to state:

“For investor-owned utilities, if asked, Bonneville has an obligation (under certain circumstances) to provide benefits to existing residential and small farm customers...”

Should the Council retain the current language, it should be clear that any obligation that the Council refers to regarding BPA providing any benefits to IOUs is perhaps more a political reality than a statutory requirement.

#### ***D. More Products, More Conflict***

SUB suggests that the Council add a discussion in its description of the problem that details the change in BPA's product offerings over time. In 1981, BPA had one contract offered to public utilities. Current products resulted in multiple contracts with fundamentally economic issues. The diversity of BPA's product offerings has contributed to the regional conflict. For example, conflict between Slice and non-Slice customers has arisen due to different contracts and different rate design structures. With individual choice the region is still grappling with the transition from the tradition of having BPA solving issues to utilities accepting individual responsibility for business decisions related to product choices. After twenty years of BPA solving contract problems for all public utilities, as an example, we are now dealing with smaller groups of utilities seeking relief on specific issues.

#### ***E. Prescriptions***

SUB notes that the Council's paper discusses three remedies prescribed for the problems discussed in the paper: The 1996 Comprehensive Review, the 1998 Cost Review, and the 2002 Joint Customer Proposal. SUB assumes that because these remedies do not include the other public process which addressed the problems (including Subscription, the public process regarding IOU benefits, BPA's New Large Single Load Policy, various Rate Cases, BPA's 5b/9c policy, Financial Choices, etc...) that the Council will not ignore these other processes or hold these processes in any less regard than those presented in the Council's paper<sup>10</sup>.

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<sup>10</sup> A list of some of these processes can be found at <http://www.bpa.gov/Power/P/rods.shtml>

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The regional record as a whole must be recognized in order to fully address any proposed solutions. SUB recommends that the application of any proposed principles be based on this regional record and not only on the three remedies discussed in the Council's paper.

**II. Do you agree that a more limited role for Bonneville in powersupply as described in principles is appropriate? If not, why?**

With the exceptions discussed in this paper regarding the discussion of the problem (discussed above) and discussion of the principles (discussed below), SUB generally supports a more limited role for Bonneville power supply. Specific support would depend on the framework of any specific new proposal regarding BPA's future role.

**III. Do you think the question of Bonneville's future role in power supply needs to be addressed in the near future? If not, why?**

The Council's primary focus at this time should be taking a leadership role regarding the IOU/Public Power Settlement. The Council's second priority, after Settlement is achieved, should be providing updated information regarding the region's load/resource balance and providing a broader perspective on general regional energy issues. The Council's third priority should be to promote the common understanding of BPA's past and present cost structure.

SUB believes that BPA's future role in power supply has been addressed in many public processes in recent years and should be continually evaluated. Implementation of changes to BPA's role should recognize current contractual obligations. With these issues in mind, SUB believes that BPA's role needs to be addressed in the near future (after the Settlement is resolved).

**IV. Do you think the principles or characteristics proposed by the Council are appropriate guidance for consideration of Bonneville's future role? If not, why?**

**A. Overview**

There were a variety of principles outlined in the Council's paper. In answering this question, SUB is referring only to the principles entitled "Proposed Council Principles for the Future Role of Bonneville" on pages 20 and 21 of the Council's paper.

In general, SUB supports a more limited role for Bonneville in power supply as described in the principles. However, SUB's position is contingent on a variety of issues, including:

- 1) DSI service from Federal Based System resources is discontinued.
- 2) Any consideration of tiered rates requires that the application of tiered rates coincide with the discontinuation DSIs being served by FBS resources. DSIs may continue to receive some type service from BPA, however the allocation of Federal resources to public agencies must not be affected and public utilities and BPA must be fully

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- insulated from any transaction associated with any DSI service. DSIs must not receive resources allocated to the lowest cost BPA tiered rate.
- 3) 20 year contracts from DSIs should be discouraged due to the financial risk associated with DSI service. BPA should avoid being in a position in the future (similar to the current situation) where DSIs declare bankruptcy, don't pay BPA, file court orders requiring the BPA continue service under current contracts, and BPA's other customers end up picking up the tab for "uncollectibles".
  - 4) Public customers have equal standing in purchasing the Slice product and the offering of the Slice product should not be limited to current Slice customers. To prevent further conflict among consumer-owned utilities, the purchase of the Slice product should continue to require the purchase of a substantial portion of requirements power purchased being composed of a Block product (which currently has similar contract and rate characteristics as other products).
  - 5) Any benefits received by Investor Owned Utilities be financial in nature and not include the physical sale of power.

**B. Principles Proposed By The Power Council**

Support of 20 Year Contracts

With the exception of 20-year contracts to DSIs, SUB generally supports this principle.

***BPA's primary role, in addition to transmission, should be managing the operation and marketing of the FBS.***

SUB generally supports this principle.

***BPA's role in providing power beyond FBS capability should be limited.***

SUB generally supports this principle.

***BPA's role should be limited contractually.***

SUB generally supports this principle.

***BPA should provide greater openness regarding costs and implement process improvements.***

With the exception of item #3, SUB generally supports this principle. SUB suggests that item # 3, regarding rebuilding trust with BPA, be dropped or modified. While there is room for improvement, SUB views BPA as a good business partner. It is unclear what the word "others" means in the context "rebuilding trust with customers and others" when discussing bilateral contracts. The wording implies that contracts between BPA and customers will include 3<sup>rd</sup> party obligations. The current wording for item #3 reads:

"3) rebuild trust with the customers and others that Bonneville is a good business partner."

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SUB suggests the following language:

“3) promote strong business relationships between customers and BPA.”

Application of this principle should not interfere with BPA's ability to make timely payment of any of its obligations. Any contractual requirements associated with BPA's costs should clearly specify any remedy should disputes arise. Any contractual guarantees provided by BPA regarding its costs should have reciprocating language that address any contract holder's ability to pay.

***Revising BPA's role will require an allocation of the FBS.***

SUB supports this principle with the understanding that there will be no DSI load served by the FBS and any benefits allocated to IOUs will be from financial transactions rather than physical power sales.

***A significant amount of the system should be offered as a "Slice" product.***

SUB generally supports this principle. SUB is not a current Slice purchaser. As mentioned above, application of this principle should provide for public customers to have equal standing when purchasing the Slice product and that the expansion of the Slice product should not be limited to current Slice customers. It is SUB's understanding that some current Slice customers would prefer a different product in the future. Slice should not be the only product promoted by the Council.

When evaluating what "significant" amount is appropriate to offer as a Slice product, SUB recommends that any Slice purchase include the requirement to purchase a substantial Block product to mitigate conflict between Slice and non-Slice purchasers. SUB suggests that rather than evaluate an appropriate level of Slice to be offered, that the Council measure the appropriate level of Slice/Block offered. It is important to understand that the ability of BPA to cover the load variations of its customers, integrate new renewable (wind) resources, and generally use the system flexibility to the region's best advantage, is a function of the overall flexibility (no matter how diminished due to fish constraints) of BPA's hydro based system as a whole. When BPA's system is "sliced" up, flexibility is diminished and we may no longer be able to leverage the system to the extent we do today to provide benefits at the lowest cost. The region needs to be cautious of losing the synergism we currently enjoy as the resulting sum of the parts could be significantly less than the whole. Any Slice development should be good for all customers, not just a few.

Any offering of the Slice product must adequately address BPA's non-system obligations, including treaty obligations and fish and wildlife obligations. In addition, while Slice does provide economic signals for BPA's obligation to serve load growth in theory, actual application of the Slice product remains mixed. Many Slice customers are larger utilities with a broad resource base of which BPA is only part of their power portfolio. Since Slice has been sold, load in the region has dropped, but many customers have continued to purchase the same level of Slice service and simply re-dispatched other resources. It should be clear that customers that have not purchased a substantial amount

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of Slice relative to their load have the ability to mask changes in load-resource balance to their benefit relative to BPA's obligations to serve customer load. The Council refers to the conflict between growing and non-growing utilities. There is also some tension between large and small utilities due, in some part, to the inherent flexibility of large utilities and the traditional reliance on BPA of small utilities as the source of all or most of their power supply.

***Benefits should be provided for residential and small farm customers***

SUB generally supports this principle with the requirement that any benefits be consistent with current federal law and that the Council not endorse amending the current law.

***The question of service to the DSIs must be addressed.***

As stated above, SUB's support of modifying BPA's role would require the ending of service to the DSIs which impacts consumer owned utilities from accessing BPA power at the lowest cost. Any transaction must not result in, nor have the possibility of resulting in, costs being borne by consumer-owned utilities associated with DSI service.

***Ensuring continued regional development of regional conservation.***

SUB generally supports this principle

***Ensuring continued regional development of regional conservation.***

SUB generally supports this principle

***BPA's ability to implement its fish and wildlife obligations must not be impaired***

SUB generally supports this principle. In addition, SUB suggests that the Council modify this principle or have an additional principle which states that all of BPA's non-power constraints must not be impaired. Non-power constraints includes Fish and Wildlife obligations, treaty obligations, and other federally required operations which require the operation of the federal system which may conflict with power operations.

***C. Principles Not Proposed By The Power Council***

In addition to the principles proposed by the Power Council, SUB proposes the following principles:

***Support for Bonneville offering a requirements product***

SUB currently purchases a requirements product from BPA and may wish to continue purchasing requirements products in the future. The Council's current principles support only one product: Slice. SUB recommends that the Council either endorse no individual products at the exclusion of others or add the principle of supporting of BPA offering a requirements product in the future.

***Support ongoing regional input in proposing solutions to manage Bonneville's costs***

This, in SUB's view, is one area that the Council can provide a forum now and in the future. Better understanding among utilities and other regional interests regarding

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Bonneville's cost structure is of vital importance when discussing the broader issue of BPA's role. This should be pursued regardless of whether BPA offers new long-term contracts. Without a common understanding of what BPA currently does and BPA's cost of doing business, transforming BPA's future role will likely lead the region down the path of unorganized reform with unintended consequences.

Respectfully submitted,

\_\_\_\_\_/s/\_\_\_\_\_  
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Jeff Nelson  
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cc: SUB – Steve Loveland, Bob Schmitt, Bob Linahan  
BPA – Steve Wright, Paul O'Neal