



Bonneville Power Administration Long-Term Regional Dialogue Concept Paper

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Regional Dialogue Concept Paper

Goals

- Promote development of regional electricity infrastructure by encouraging non-Federal development;
- Limit BPA costs, rates and risk;
- Enhance the probability of payments to the U.S. Treasury;
- Align regional interests and reduce regional conflicts;
- Promote conservation and renewable resource development;
- Do not impair BPA's mission accomplishment in key areas such as fish and wildlife mitigation; and
- No new legislation



Regional Dialogue Concept Paper Brief History

- **April 2002** – Joint BPA Customers submit Proposal for new long-term contracts
- **June to December 2002** – BPA and Northwest Power and Conservation Council conduct joint public meetings; Council submits recommendations to BPA
- **Fall 2003** – Council and BPA hold a new round of regional meetings
- **May 2004** – New Council recommendations made to BPA
- **Spring 2004 to present** – Frequent meetings held with Customer Collaborative and other customer groups on long-term contract issues
- **August 2004** – Public Power Council makes “allocation” proposal to BPA
- **February 2005** – Short-Term Regional Dialogue Policy and ROD published
- **June 2005** – Written proposals for long-term policy received from numerous customer and constituent groups; final public meeting held prior to release of Concept Paper



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February 2005 Policy Decision

- BPA decided last February to limit the amount of power it sells at its lowest cost-based rate to the output of the existing system.
- Each BPA customer would get a right to purchase a limited amount of power priced at BPA's lowest cost rate.
- Beyond that amount, customers would either develop their own new power resources, buy power on the market, or purchase power from BPA at a higher tier reflecting the full cost and risk of new power sources.



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KEY ISSUES TO BE ADDRESSED & RESOLVED

- Public Utilities--Access to Power at BPA's Lowest Cost-Based Rates
- Public Utilities--Products, Pricing and Rates
- The Public Exchange
- Benefits to Residential and Small Farm Consumers of the IOUs
- Service to Direct Service Industries
- Conservation
- Renewables
- Resource Adequacy
- Long-term Cost Control
- Dispute Resolution



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- Public Utilities

Access to Power at BPA's Lowest Cost-Based Rates

- All 7300 aMW of firm power from the existing Federal system would 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 proposes new 20-year contracts for all its public utility customers. Those contracts would give each customer a 20-year high water mark (HWM) that defines their allocation rights to power at the lowest rate.
- The HWM would be the customer's 2002 net requirements, proportionately adjusted to reflect the 7300 aMW available from the existing system.



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- Public Utilities

Products, Pricing and Rates

- BPA would offer roughly the same mix of power products that it now sells to public utilities, although the future of the Slice product has not yet been decided.
- BPA would only serve more load than the 7300 aMW output of the existing system if individual customers ask BPA to acquire additional power for them.
- The costs of this newly-acquired power would not be melded with the costs of the existing system when BPA sets rates.
- If new public utilities are formed, BPA would give such new customers a contractually defined HWM if some of the lowest-cost power remains after existing customers have made their purchases.



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- Public Utilities

Public Exchange

- BPA is proposing two alternatives to address this problem.
- First, as part of offering a HWM and a long-term contract, BPA could ask public customers to settle their rights to Residential Exchange Program benefits.
- Alternatively, the customer could still have access to the existing Federal system through either
 - a melded tiered rate pool of all preference customers that elect not to settle their exchange, or
 - a rates structure that is accompanied by a new tiered-ASC methodology that would apply to its exchange resources and loads.



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- Benefits to Residential and Small Farm Consumers of the Investor-Owned Utilities
 - BPA proposes to pursue settlements of the REP with those utilities that have high average system costs, including IOUs.
 - BPA proposes a settlement providing benefits ranging between \$100 million and \$300 million, which is consistent with historical benefits.
 - If no settlement is reached, BPA would implement the Residential Exchange Program under the Northwest Power Act.



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- Service to Direct Service Industries
 - BPA is not required by law to continue this service beyond 2011, but is proposing to continue this offer after 2011 to help sustain important jobs in the region.
 - BPA proposes to extend the FY 2007-2011 DSI service construct into the post-2011 period.
 - DSIs would be offered 20-year contracts, limited to a maximum of 577 aMW (or the financial equivalent) and a cap of \$59 million a year.



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- Conservation
 - BPA would encourage development of further cost-effective conservation in the load it serves by continuing its current general approach to conservation post-2011.
 - The focus would continue to be on facilitating achievement of conservation at the local level, since this has proven most effective.
 - As currently, BPA's MW goal for conservation would be based on the Regional Council's Power Plan, and BPA would seek to meet that MW goal at the least-cost in the load BPA serves.
 - BPA would recover the costs of conservation in Tier 1 rates because achievement of conservation would free up more available Tier 1 power.



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- Renewables

- The amount of Tier 1 renewables funding would be tied to the region's success in meeting NPCC targets.
- BPA's would focus on two main activities:
 - Development of creative Tier 2 renewable products
 - Continued funding to facilitate renewable resources in the region.
- Renewable products may 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.



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- Resource Adequacy
 - BPA views resource adequacy as vital to the public interest. Currently, the Northwest Power and Conservation Council is taking the lead on a Regional Resource Adequacy Forum that includes BPA, customers, states and other interests.
 - One option for moving forward 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.
 - A second option would be to include contract provisions that require or incentivize a definition for measuring adequacy, that specify reporting requirements and that establish implementation mechanisms.



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- Long-term Cost Control
 - Customers must have reasonable assurance that BPA will commit to long-term cost control before they sign long-term contracts since they would be making a 20-year commitment to pay those costs.
 - BPA proposes to engage customers and other interested parties directly in its cost control efforts. Specifically,
 - Continue ongoing transparency in decision-making and financial reporting.
 - Embed, as a matter of policy, BPA's decision to participate in the Cost Management Group process, including making senior management available to confer on major policy decisions and overall financial performance.
 - Include in contracts a limited off-ramp tied to effectiveness of cost management.



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- Dispute Resolution
 - BPA believes the goals of certainty and predictability would be well served by a process that subjects contract disputes of factual issues to binding arbitration so long as the arbitration is open to other customers since other parties 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.

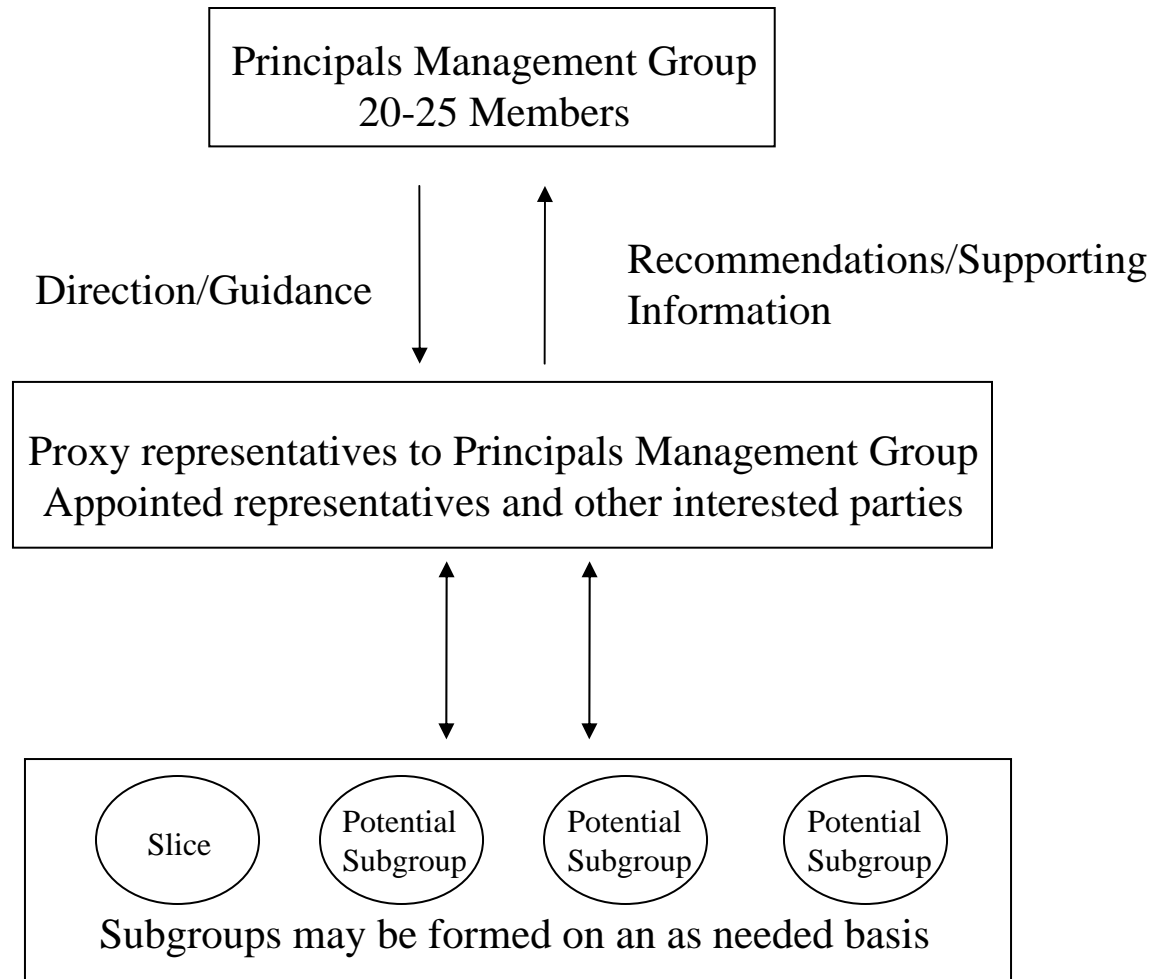


Regional Dialogue Concept Paper Current Schedule

August 2005:	BPA Long-Term Concept Paper
Sept-Dec 2005:	Regional Consensus-Building
Jan 2006:	Formal Policy Proposal
May 2006:	BPA Policy ROD on Long-Term Issues
May 2007:	New Long-Term Contracts Offered
August 2007:	New Long-Term Contracts Signed
Oct 2008 or later:	New Contracts Go Into Effect



Proposed Structure



BPA Power Business Line



Next Steps

- **Principals Management Group**
 - Create a principals management group, representative of BPA stakeholders, that is committed to meeting 2-3 days a month.
 - First meeting of this group is scheduled for September 19 from 9:00 – 3:00 PM in BPA Rates Hearing Room.
 - Meeting is intended to lay the groundwork for future discussions.
 - One of the first tasks is to come up with a comprehensive list of issues and set the schedule that will form the basis for further regional discussion.