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October 9, 2002

MEMORANDUM

TO: Council Members

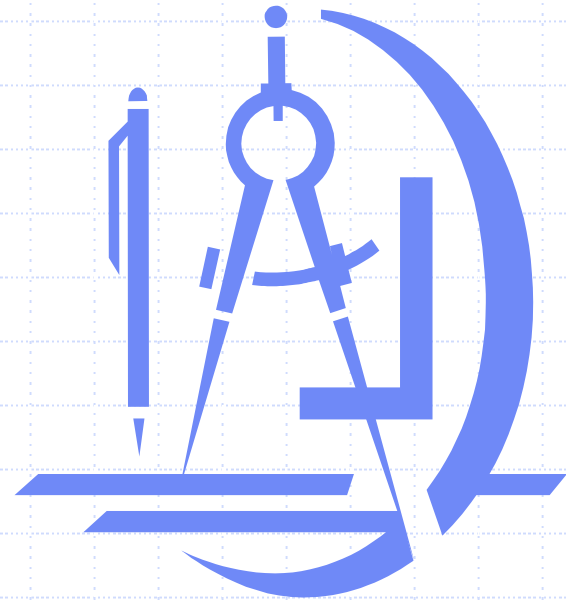
FROM: Dick Watson

SUBJECT: Briefing on "The future role of BPA" and the process for reaching a Council decision

One of the most important issues the Council will address over the coming year is the question of the future role of BPA. There are proposals for altering BPA's role more significantly than anything seen since the passage of the Northwest Electric Power Planning and Conservation Act in 1980. This briefing outlines the reasons why this issue has come to the fore now, the alternative proposals that have been put forward, a proposal for how the Council would evaluate the proposals, and the timeline and process for the ultimate decision.

The future role of the Bonneville Power Administration

Background Briefing
October 17, 2002



**Northwest
Power Planning
Council**

Overview

- ◆ Why this issue now?
- ◆ Goals/objectives/principles for a “redefined” BPA
- ◆ Summary of the Major proposals
- ◆ Evaluating the proposals
- ◆ Process

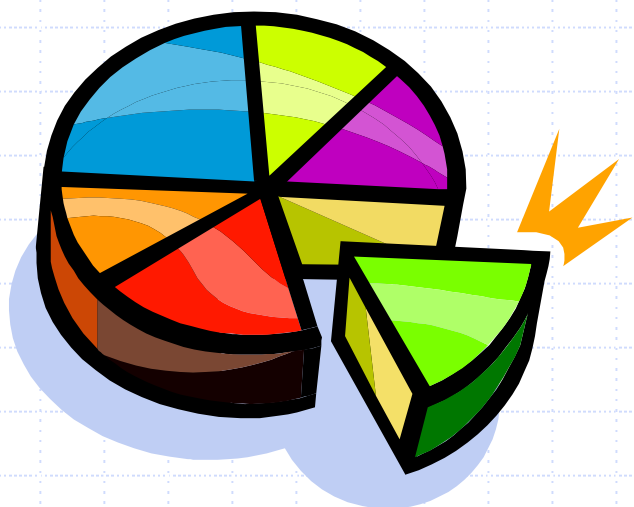
Why this issue now?

- ◆ Long-standing perception of threat to maintaining benefits of federal system for Northwest
 - Deferral of treasury payment would increase risk
- ◆ Concerns about presence of federal agency in competitive wholesale market
 - Competition with private sector
 - BPA's market influence
 - Exposure of BPA to market risk

Why now?

◆ Long-standing arguments over allocation or dilution of benefits of federal system

- Public vs private vs DSIIs
- Growing vs non-growing customers



Slice up the existing pie or make a larger, more expensive pie?

Why now? (2)

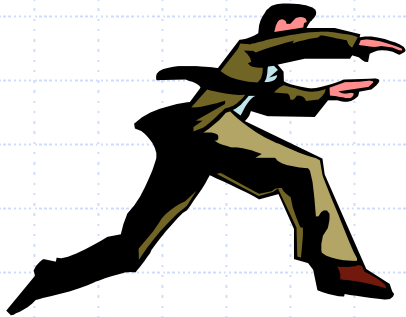
- ◆ Public customers don't have to buy from BPA but BPA has to serve them if they ask
 - Risk exposure for BPA/Treasury
 - Lack of clarity about who will have to serve future loads
 - Potentially sub-optimal decisions about new resources
 - ◆ By BPA
 - ◆ By Customers

Why now? (3)

- ◆ DSIIs seeking clarity about whether they will have access to federal power post-2006
- ◆ Interest of several of the region's governors
- ◆ Attempt to settle litigation over benefit to be provided to residential/small farm customers of IOUs

This is a **BIG DEAL!**

- ◆ Most significant changes to BPA's role in the region since the Power Act



- Big stakes for the region
- Needs to be more than a leap of faith

The question: How should BPA market electricity post-2006 to:

- ◆ Preserve or enhance long- term benefits to region?
- ◆ Endure over wide range of political and economic conditions?
- ◆ Reduce BPA's market influence and risk?
- ◆ Incur no additional risks for taxpayers or Treasury?
- ◆ Not increase and possibly reduce costs?
- ◆ Not require legislative changes, and minimize political risks?
- ◆ Fulfill BPA's responsibilities for:
 - conservation, renewables?
 - Fish and Wildlife?
 - Maintain reliability?
- ◆ Provide clarity regarding load responsibility after 2006?
- ◆ Clear economic signals for resource development?

The Proposals

- ◆ One comprehensive – the Joint Customer Proposal
- ◆ Three “limited purpose” proposals:
 - Public Interest Group – focused on fish and wildlife; conservation and renewables
 - Alcoa – focused on service for Alcoa
 - Steel Workers – service for DSI’s generally
- ◆ The base case – how BPA currently operates

Key Aspects of the Joint Customer Proposal (JCP)

- ◆ Long-term (20 years) contracts
- ◆ Existing Public Agencies choose one of two products: Slice **OR** Requirements
- ◆ New Public Agencies limited to Requirements product, pooled rate limited to first 75MWa
- ◆ Financial benefits for residential & small farm customers of investor-owned utilities
- ◆ Direct Service Industries receive an allocation
- ◆ Responsibility for conservation & renewables

JCP -- Slice Product

- ◆ Customers receive % allocation of output of FBS based on customer's 2007 net requirements and critical water
 - Receive their percentage of actual FBS output (with some flexibility)
 - Pay the same percentage actual costs of FBS
- ◆ Customers manage variation of slice cost and output and associated risk & benefits
- ◆ Responsible for meeting own load growth

JCP – Requirements Product

- ◆ BPA provides power needed to meet net requirements loads
- ◆ BPA manages variation of product cost and output and associated risk & benefits
- ◆ Rights, responsibilities & obligations similar to now
- ◆ BPA serves load growth unless customer acquires own resource
 - New resource costs could be pooled or bilateral
- ◆ BPA establishes rates

JCP -- Residential & Small Farm Customers of IOUs

- ◆ Receive financial benefits from the federal system to settle the Residential Exchange
- ◆ Based on 3300 MWa energy to R&SF customers, about half their existing residential load
- ◆ Value comparable to slice contract, varies as BPA's costs and gas prices change
- ◆ Specific min/max limits to benefits during the first five years

JCP -- DSI Service

- ◆ Up to 600 aMW BPA service to existing DSI smelters; 50 aMW to non-smelter DSI loads
- ◆ Active smelters provided base allocation of 100 aMW per plant, more under certain conditions
- ◆ DSIs taking BPA power and willing to provide new generation in region may qualify for BPA financial support for this generation

JCP-- Conservation & Renewables

- ◆ Goal: acquire cost-effective conservation and renewables.
- ◆ NWPPC develops conservation & renewables targets in Power Plan and portion applicable to BPA-served load
- ◆ BPA responsible for “regional activities” – market transformation, R&D, low income
- ◆ BPA establishes C&R budget in rate process
- ◆ Conservation & renewables discount mechanism with beefed-up RTF to incent utility action
- ◆ BPA backstop for failure to perform

JCP – Other issues

- ◆ Operations – Corps, Bureau, BPA continue to call the shots, including responding to reliability emergencies
- ◆ Fish and Wildlife – Obligations continue and are not altered by proposal
- ◆ Cost control – in return for long-term commitment to pay, customers want “meaningful and enforceable” participation in setting BPA expenditures

Public Interest Groups – Fish and Wildlife

- ◆ BPA operates and optimizes hydro system; slice customers have no flexibility with respect operation of their slice –
 - Remove incentives to violate salmon requirements
- ◆ Fish operations “hard constraints”
- ◆ Columbia River Treaty Tribes to “speak on behalf of salmon” with authority = federal government in all river operation decisions
- ◆ Diversified energy portfolio to “lessen pressure” on hydro generation

Public Interest Groups – Conservation and Renewables

- ◆ Very similar to JCP but:
- ◆ Meet ALL load growth with C&R
 - All cost-effective conservation per Council (MWa)
 - Balance of needed power from Renewables, MWa target with above-market \$ cap
- ◆ Utility targets based on total load, not just BPA share
- ◆ Direct BPA funding to weatherize 1/20th of low-income unweatherized homes per year
- ◆ More specific on, mechanisms, performance, accountability, flexibility, target adjustments, local/regional splits

Alcoa

- ◆ BPA should act as Power Act intended
- ◆ Supply Alcoa up to 700 aMW (Intalco and Wenatchee)
- ◆ Sell at melded rate
- ◆ Alcoa will supply cost-effective power to BPA at cost (plus return on investment)
 - BPA does not have to pay if Alcoa does not satisfy obligations

Steelworkers

- ◆ Minimum 100 aMW for operating smelter contingent on:
 - Up to 6 months compensation for workers at curtailed plants
 - Companies demonstrate long term viability with outside power supplies
- ◆ 5 year credit support for companies developing resources, incl. Renewables
- ◆ Modulation agreements (reducing peak power requirements) and interruptibility during droughts to protect fish
- ◆ Support for salmon recovery, investment in conservation and renewables

Evaluating the alternatives

Goal/ objective	Base Case	JCP	Public Interest	Alcoa	Steel- workers
<ul style="list-style-type: none">•How do the alternatives compare with the Base Case (status quo) in achieving the goals and objectives?•What is the relative importance of the different goals and objectives					

What's the process and timeline for deciding?

