Northwest Power and Conservation Council

December 1, 2005

MEMORANDUM

TO: Power Committee

FROM: Terry Morlan

SUBJECT: Update on the Regional Dialogue

The Regional Dialogue Technical Group has met four times since the November Council meeting. The Principles Management Group meeting that was scheduled for November 29 was cancelled due to insufficient progress to warrant a meeting. Topics that have been addressed since the November Council meeting include; renewable resources, service to public utilities, conservation, and service to new publics. The public utility issues were revisited from earlier meetings.

At the November 18 meeting Bonneville's role in renewable resources was discussed. Bonneville stated that its proposal was intended to put renewable funding and commitment on a more stable path than the current payments that are linked to market power prices. Bonneville was encouraged to clearly state its commitment to implementing the Council's power plan. Some of Bonneville's customer utilities are very interested in pursuing renewables, but noted that being required to decrease the Tier 1 power they can buy from Bonneville (i.e. decrementing their net requirements) would be a big disincentive to purchasing new renewables. Most were also concerned about any possible mixing of Tier 1 and Tier 2 costs.

A group led by Rachel Shimshak presented a seven-point proposal for treatment of renewable resources. The proposed points are as follows:

1. Priority for use of the hydro system flexibility (after meeting basic ancillary services) to firm and shape wind or other renewables;
2. No decrements to net requirements calculations for renewables purchased in near term;
3. BPA facilitation of lumpy renewable projects as anchor tenant or credit support;
4. BPA provision of transmission support products for renewables;
5. Use of Tier 1 funds to promote and develop renewables for later sale as a Tier 2 product;
6. Allow a consumer-owned renewable resource to offset loads for purposes of new large single load treatment;
7. And other possibilities such as a renewable discount program, billing credits, and Tier 2 products.

Most of the day was spent discussing these proposals. There was some general interest in and agreement on the 1st, 3rd, 4th and 6th bullets, although there were some long-term concerns about how to shape renewable resources like wind as Bonneville outgrows the flexibility of the hydro system. Would Bonneville then buy and meld ancillary products into Tier 1 costs? There was more concern about any use of Tier 1 financing to promote future Tier 2 products. A proposal for a renewable portfolio standard approach received little interest. Ultimately, a committee was assigned to work through the details and see if some agreement could be reached. The committee will report back at a future meeting.

On November 21 the technical group continued its discussion of service to public utilities. Seattle City Light presented a new proposal that was intended to maximize the ability of partial requirements customers (i.e. those with their own generating resources) to use their Tier 1 access. Conservation done between 2002 and the start of the regional dialogue contracts in 2012 would not be subtracted from a utility's net requirements. This eliminates a concern that utilities would avoid conserving until the new contracts take effect to keep their net requirements (the amount they can potentially buy at Tier 1 rates) from being decreased. Another element of the proposal was that a utility's own resources up to 15 percent of a its HWM could be undeclared each year in the event of a utility losing load. The proposal also provided for arbitration of the net requirements and non-federal resource calculations done for a utility. This proposal is aimed at closing the gap between the PPC proposal in which a partial requirements utility could access all of its Tier 1 allocation and the Bonneville concept paper which relied more on current net requirements calculations. Discussion of the conservation and arbitration components of this proposal was deferred to those topic areas. Although the partial requirements proposal to undeclare non-federal resources would increase the cost of Tier 1 power to full requirements customers (fewer revenues from remarketing excess Tier 1 power), there were no objections from that group. I expect that this was part of the agreement reached in the PPC proposal.

There was a report from the PPC executive committee. The PPC is interested in a viable and competitive Tier 2 product, but are very concerned about mixing Tier 2 and Tier 1 costs. They did not have a specific proposal about the public exchange, but did suggest that perhaps existing non-federal resources could be treated differently than new ones, opening the door for settlement of some of the known potential public exchange recipients like Clark PUD. This could make it easier to get agreement on waiving exchange rights for future resources that could be acquired under Tier 2.

On November 22 the topic of conservation was discussed. Bonneville described its concept paper proposal. The concept paper said that utilities that do conservation between 2002 and 2009 should be held harmless, meaning that their access to Tier 1 power would not be reduced by the conservation. There was agreement on this, but full requirements utilities thought this adjustment should extend all the way to the beginning of the new contracts in 2012, which was the proposal advanced for the partial requirements utilities. The question of comparable treatment for full requirement utilities beyond 2012 was raised. A proposal was advanced that would create a rate credit for the full requirements class based on remarketing revenues from conserved power until the class exceeds its high water mark. This and the partial requirements proposal raised a concern that conservation done by public utilities could have the effect of reducing the IOU exchange benefits by increasing the Tier 1 costs. In addition, the IOUs wanted to continue to be part of the regional conservation effort through participation in the conservation rate credit program. At this point some public utility representatives said that they don't favor the proposed IOU settlement structure and prefer a fixed payment type of settlement.

A proposal was made that Bonneville develop a policy to facilitate conservation transfers among utilities. There was some interest in this (some utilities have already done conservation transfers), but Bonneville was concerned about possible unintended effects and wanted to think about it some more. Bonneville proposed a conservation principle that said tiered rates creates an incentive for conservation and that they intend to "hold customers harmless" for conservation achieved after 2002. They clarified that holding harmless doesn't mean changing HWM. There was some disagreement whether conservation should create headroom and extra remarketing revenues to be shared by all, or be used to the benefit of the individual utilities that achieve the conservation. No agreement was reached on the conservation principles.

At the end of the meeting on November 22nd there was a list of outstanding issues presented and which parties needed to take the next step to resolve them. These issues include:

- Cost control, what happens when CMG and Bonneville disagree? (BPA)
- Dispute resolution, what areas can be subject to this? (BPA)
- Service to new publics (thought to be close to agreement, Publics).
- Renewables policies (assigned to subgroup).
- Separation of Tier 1 and Tier 2, limitations (BPA).
- Term of new contracts (assigned to subgroup).
- Rate methodology reference to contract language (BPA).
- Conservation issues remaining (all parties).
- Treatment of non-federal resources in net requirements calculations (BPA).
- Public exchange (all parties).
- IOU exchange (all parties).

This may appear to be the same list that we started with, and it is, but progress has been made in some areas. Since many of the areas interrelate it is difficult to come to conclusions on one without settlement on many others.

The technical group met again on November 29. The issue of resource removal for partial requirements customers was addressed again. Bonneville came back with a suggested 5 percent of total retail load resource removal in case of loss of load. Partial requirements utilities (mainly Seattle) said this was not adequate and castigated Bonneville for being intransigent. They then proposed allowance of resource removal of 5 percent plus conservation achieved. Bonneville staff members attending the meeting were not authorized to accept that proposal although several technical group participants thought it was a good conservation incentive. The resource removal right is really only relevant to a few utilities, but seems to be a big sticking point. Although resource removal for partial requirements customers increases costs to full requirements customers, it was part of the PPC deal and so far the full requirements customers are not opposing it.

A proposal was presented to extend the contract period by one year, from ending September 30, 2026 to ending September 30, 2027. This would be accomplished by moving the contract-signing deadline from August 2007 to October 2007. The contracts would go into force on October 1, 2011 so the duration would be 16 years. However, Bonneville is constrained by law from contracting for more than 20 years and the clock starts at contract signing, not when the contracts go into force. The utilities still want to find a way to make the contracts remain in force for 20 years or more. I'm puzzled why this is so important to the customers.

The renewables subgroup reported back on its discussions. It had agreed that Bonneville should offer some wind shaping and firming product at a predictable price, a price that would be good for longer than a rate period, but less than 20 years. It would be designed so that Bonneville customers would not be harmed and there would be something for IOUs, but the subgroup was unsure how the IOUs would be accommodated. The group proposed that Bonneville could fund prebuilding of a renewable Tier 2 renewable resource using Tier 1 costs. All costs would be returned to Tier 1 customers when the Tier 2 product was subscribed to. This would be one use of a sum of money set aside in Tier 1 for supporting renewable development. The group proposed the amount would be greater than the current $15 million and less than "$X." There was disagreement within the renewables subgroup about how much risk Bonneville would carry as an "anchor tenant." Utility representatives thought that the Tier 1 investments would be secured by Tier 2 early commitments, but the renewables representatives did not see it that way. There does seem to be agreement that there will be Tier 1 funding of renewables in some amount greater than the $15 million currently allowed, but there is still disagreement about using that to fund actual renewable generation and in effect augmenting the federal base system, even on a temporary basis. The concern is that Bonneville's federal base system would be bearing the risk of renewables development and that would be inconsistent with the objective of taking Bonneville out of the role of regional risk taker.

The technical group will meet next on December 12. The first thing on the agenda will be the schedule and a how to bring this process to a close. A number of other outstanding issues will be addressed as well. There is another technical group meeting on December 15 and a Principles Management Group on December 16. At an earlier meeting, the technical group reserved three days in January for additional meetings.

From my perspective, and based on Council's policy and power plan, reaching an agreement that clarifies the resource responsibility of utilities, provides the correct incremental cost signals, and preserves the benefits of the hydroelectric system for the region, which is the primary goal of the regional dialogue. It would be unacceptable if these goals could not be met due to disagreements over details that have far less effect than failure to reach this primary goal. The objectives of the Council's plan and the Regional Dialogue are consistent. I think it may be time for the Council to restate its expectation that Bonneville resolve the regional dialogue issues very soon. This could be done through statements by the power committee members attending the Principals Management Group on December 16 or in a letter to Steve Wright. In order to do that Bonneville must be willing to carry out its commitment to go forward with the proposals in its concept paper in the absence of reaching other agreements in specific areas through the regional dialogue.