

A World Institute for a Sustainable Humanity
 Alaska Housing Finance Corporation
 Alliance to Save Energy
 Alternative Energy Resources Organization
 American Rivers
 Assoc. for the Advancement of Sustainable Energy Policy
 Central Area Motivation Program
 Citizens Utility Board
 Climate Solutions
 Cold Spring Conservancy
 Community Action Directors of Oregon
 Earth and Spirit Council
 Emerald People's Utility District
 Eugene Future Power Committee
 Eugene Water & Electric Board
 Fair Use of Snohomish Energy
 Friends of the Earth
 Golden Eagle
 Audubon Society
 Greenpeace
 Housing & Community Service Agency of Lane Co.
 Human Resources Council, District XI
 Idaho Community Action Association
 Idaho Community Action Network
 Idaho Conservation League
 Idaho Consumer Affairs
 Idaho Rivers United
 Idaho Rural Council
 Idaho Wildlife Federation
 Kootenay -Okanagan Electric Consumers Association
 Land and Water Fund of the Rockies
 League of Utilities and Social Service Agencies
 League of Women Voters - ID, OR & WA
 Metrocenter YMCA
 Missoula Urban Demonstration Project
 Montana Environmental Information Center
 Montana Public Interest Research Group
 Montana River Action
 Montana Trout Unlimited
 Mountaineers
 National Center for Appropriate Technology
 Natural Resources Defense Council
 Northern Plains Resource Council
 Northwest Energy Efficiency Council
 Northwest Resource Information Center
 NW Sustainable Energy for Economic Development
 Olympic Community Action Program
 Opportunity Council
 Oregon Action
 Oregon Energy Coordinators Association
 Oregon Energy Partnership
 Oregon Environmental Council
 Oregon State Public Interest Research Group
 Pacific Northwest Regional Council of Carpenters
 Pacific Rivers Council
 Portland Energy Conservation, Inc.
 Portland General Electric
 Puget Sound Council of Senior Citizens
 Renewable Northwest Project
 Rivers Council of Washington
 Salmon for All
 Save Our Wild Salmon Coalition
 Seattle Audubon Society
 Seattle City Light
 Sierra Club
 Sierra Club of British Columbia
 Snohomish County Public Utility District
 Solar Energy Association of Oregon
 Solar Information Center
 Solar Washington
 South Central Idaho Community Action Agency
 South East Idaho Community Action Agency
 Southern Alliance for Clean Energy
 Spokane Neighborhood Action Programs
 Tahoma Audubon Society
 Trout Unlimited
 Union of Concerned Scientists
 WA Association of Community Action Agencies
 Washington Citizen Action
 Washington Environmental Council
 Washington Public Interest Research Group
 Washington Wilderness Coalition
 Western Solar Utility Network Cooperative
 Working for Equality and Economic Liberation
 Yakima Valley Opportunities Industrialization Center

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 Puget Sound Energy

Supporting Members:

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 Housing Authority of Skagit County
 Multnomah County Weatherization
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 Washington State University Energy Program

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Comments of the NW Energy Coalition

on the NW Power Planning Council's

Draft Recommendations on the Future Role of Bonneville

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The NW Energy Coalition (NVEC) appreciates this opportunity to comment on the Council's November 25, 2002 draft "Recommendations on the Future Role of Bonneville" ("Draft"). NVEC would like to compliment the Council on its excellent analysis. Even though we agree with the Council that the region faces the problems--and others¹-- listed on page 1 of the Draft, NVEC is still not sure the overall structure envisioned in the customers' proposal is the best way to solve them without some dangerous consequences. There may be easier and less drastic means to address them more directly. That said, we believe that the vast majority of the recommendations contained in this draft deserve support under almost any scenario including the status quo.

Before beginning our detailed comments, it is important to make one general observation. The Draft assumes that a large portion of BPA's resources will be sold as the Slice product. However, recent comments from the utilities indicate that this assumption may not be true. Instead, they believe at this time that only a very small amount-- even less than that now taken as Slice, perhaps less than 1000 MWs--will be sold as Slice. The rest will be spread among the other various requirements products (full requirements, partial requirements, block). This development means that the paradigm the Draft is analyzing may not be realistic. That is not to say that the new paradigm will not be significantly different than the status quo, but it is not really what the Council analyzed. Our comments below reflect this new perception, and we urge the Council to re-examine its paper in this new light.

Recommendation: The Council should re-examine its analysis and recommendations under an assumption of very small amounts of BPA resources sold as Slice.

DETAILED COMMENTS

P.7 (Background discussion of drivers which create need for change in the way BPA sells its power): It is important to identify correctly the causes for Bonneville's problems described on p. 1 and seen as the justification for the large structural change being considered. NVEC disagrees with the analysis the Council puts forward. The Council identifies two main reasons causing BPA's problems and which necessitate a different paradigm. First:

The ability of public utility customers to periodically place load on Bonneville or take it off exposes Bonneville to inordinate market risk. Unlike other wholesale suppliers, Bonneville cannot refuse a public customer's request to serve its load. (pp.6-7)

Second:

A corollary to the risk associated with load uncertainty is the uncertainty of developing new resources. Will Bonneville be purchasing for a customer's load growth or will the customer purchase for its own needs? This uncertainty puts reliability and price stability at risk. (p.8)

While NVEC does not discount these risks, we point out that the Council has left out a much more significant one: managing the tremendous volatility of secondary sale volume and revenue. This is BPA and the regions' number one problem, creating swings in available

¹ This list, however, does not include all the problems with the existing system that concern us. Missing is the major problem of how to meet our ESA, NW Power Act and Treaty obligations to restore salmon and steelhead in the Columbia River system. The current system often treats those obligations as discretionary, with fish operations and funding levels used as the shock absorber protecting BPA and its customers from market and weather risks and planning mistakes.

resources and revenues which make load growth issues pale in comparison. It is also much more important than the once-every-ten-year opportunity for BPA's customers to change their loads on BPA significantly when contracts end. That sort of problem can be solved fairly easily with a longer notice period. While the slice concept *might* have helped absorb the secondary sales risk under the customers' proposal, it now seems unlikely given that there will probably be very few slice customers.² This problem must be solved to protect BPA's financial health, and thus provide adequate and predictable funding for BPA's important public purpose obligations and less volatile rates for customers. The Council's Draft is negligent in not giving this issue the attention it deserves.

NWEC's answer to this problem is: (1) create robust demand-response programs, including managing the DSIs as "swing" loads (discussed below); and, (2) diversify the region's resources to leave us less dependent on natural gas prices and above-average hydro. Will the customers' proposal, which hands over future resource decisions to the utilities, result in that outcome? Only if there is strong leadership and requirements to ensure that we develop the ample amounts of cost-effective conservation, load control and renewables available in the region. Without such a mandate, we will not achieve those goals because of the market barriers to conservation and renewables and the incentive to be a "free rider" on someone else's resource development. We can only get there if we work together as a region.

Recommendation: The Council should focus more attention on the most critical problem facing BPA and the region: variable secondary sales volumes and revenues. This problem dwarfs that due to customers' ability to move on and off the system and the question of who is responsible for load growth. Those problems are important, but they must not divert us too much from the larger issue.

P.10-11 (Customers' ability to control Bonneville's costs): NWEC shares the Council's concern with various approaches suggested by the customers, including a customer advisory committee with enforceable budget authority, "off-ramps" to the contract if cost targets are not met, and binding arbitration. We agree with the Council that this could, but must not become, a "...back door to cutting back important but not customer-popular activities." (p. 11) The benefits and obligations Bonneville brings to this region are not limited to its customers' interests. They include extremely important public purposes which are critically affected by BPA's actions. If customers are provided any "meaningful and enforceable" influence over Bonneville, then so must non-customer stakeholders. It is just as vital for BPA to be held accountable for underfunding as for overfunding, and we are deeply concerned that providing customers extraordinary influence over Bonneville will be harmful to the region.

P. 13 (Would the customers' proposal "de-optimize" the system?): The Council's Draft states that it does not believe that slice will result in less than optimum *operation* of the system. The Draft asks this question too narrowly, only focusing on less than optimal real time operation of the hydro system. While we have our concerns about this, they may be moot given the probability of few slicers. The Draft fails, however, to ask the same question about the long-term expansion of the system: will that be optimal under the customers' paradigm?

² We would guess that this risk is what is causing many customers to have second thoughts about signing up for Slice. BPA, at least, has some load and resource diversity (as well as the ability to miss Treasury payments and lean on the river via a hydro "emergency") to help manage this volatility that an individual utility wouldn't have.

Will transferring the responsibility for system expansion from BPA to the customers produce a more optimal outcome? There is good reason to think that may not be the case unless important mandates are included. Another way of asking this question is whether fragmenting the planning function among a large number of utilities is a good idea? We are concerned that the natural diversity of BPA's large system will not be realized by many smaller utilities looking out for their own needs. There is good reason to believe that the result will be serious overbuilding as each utility seeks to reduce its risk. Or, perhaps there will be serious underbuilding as each utility tries to free ride on others' efforts. The result is not obvious and deserves the Council's attention, as either outcome is expensive--and can be avoided with better regional coordination. FERC certainly does not think planning should be done on an individual utility basis, as it is pushing for larger planning units--RTO-wide or even West-wide--rather than smaller ones.

NWEC's solution to this problem is for a regional planning goal set by the Council, implemented by BPA and regional utilities, and accomplished solely through acquiring the ample amounts of cost-effective efficiency and renewable resources available to the region.

Recommendation: The Council should address the issue of whether fragmenting the current centralized planning structure, as envisioned by the customers' proposal, will lead to a more or less efficient outcome.

P. 13 (System emergencies): NWEC has long maintained that Bonneville does not have the right to alter Bi-Op flow and spill operations simply to relieve its financial problems, but we will not reargue that issue here. Instead, we focus on the Draft statement that, "There should be a proportional sharing of any costs or revenues from such operations with the slice customers." (p.13, emphasis added) We strongly oppose giving any incentive to Bonneville or its customers to encourage more hydro emergency declarations. These emergencies should be only be used as a last resort, and not viewed as a convenient money-maker. Instead we propose that there be a financial penalty imposed on BPA for declaring any such emergency (except for short-term stability reasons) to incent the agency to put into place measures to avoid their use.

Recommendation: Any revenues generated from hydro emergency operations should be used to fund additional science-reviewed fish projects to accelerate recovery efforts. These revenues should not serve as a "reward" for poor planning.

P. 14 (Requirements service pricing): The Council's Draft recommends that requirements service be priced such that the actual cost of load growth should be seen, i.e., a tiered rate. NWEC supports this point, but would go somewhat further. Not only should every kWh of load growth face a marginal cost, but *all* marginal kWhs. That is, utilities should face and be able to capture the full marginal avoided cost of any kWh *reduction* in use as well. For slow or non-growing utilities this is a small but important difference from the Draft recommendation (and it could deal with a legal problem regarding not wanting to decrement net requirements, discussed below). It could easily be implemented by pricing 90% (for example) of initial loads at embedded cost and the remaining 10% at marginal cost.³

³ This is slightly simplified. The price of the first 90% would have to be a bit less than embedded cost to account for the over-collection from the last 10%.

Recommendation: Every marginal kWh. should be priced at long-term marginal cost, not just load growth, in order to give the correct incentive for load reduction and behind-the-meter distributed generation.

P. 15-16 (IOU Benefit): NWECC supports a more simple and straightforward methodology to calculate the Exchange benefit. However, we suggest the Council discuss more fully one question about the customers' proposal, even though we will not advocate any particular answer.⁴ Under the traditional Residential Exchange, only IOUs with rates above Bonneville's received a benefit. However, this proposal provides benefits to *all* IOU customers. Is this the best use of scarce resources to have the group of customers with higher rates, many of whom are suffering economic hardship, subsidizing the rates of their lower cost neighbors? And, will this outcome produce the broad satisfaction with the settlement that the Council and the region seek?

Recommendation: The Council should discuss the political and social ramifications of an Exchange settlement which, unlike the provisions of the NW Power Act, provides benefits to customers who already have lower rates than BPA's.

P. 17-18 (DSI Service): The Council Draft recognizes the reality that the DSIs are likely to be "swing" plants, and also their political and economic importance to the communities in which they are located. The Draft also discusses the value they could provide in terms of short and long-term interruptibility. However, despite this recognition, the Draft's recommendations fall short of capturing this value. In particular, the Council recommends that service to the DSIs be provided at Bonneville's melled rate.

Pricing the DSIs' power at BPA's melled rate is not a good way to get full value from DSI loads. As discussed above, NWECC believes one of BPA's (and the region's) biggest challenges is to cope with the huge swings in secondary power generated by the hydro system. BPA should seek to structure its sales with the DSIs in a manner which helps with the problem. Pricing at BPA's melled rate, which reflects the agency's costs, could be counterproductive. Because of the large affect of secondary sales revenues, BPA's costs very often trend in opposition to the market. When market prices are high, BPA's costs can be low because it is receiving high value for its surplus. Likewise, when the market is low, BPA suffers because of weak secondary revenues and so must raise its rates. This is not always the case, of course, since a high market may be caused by low water, meaning BPA has to purchase at high prices. In any case however, the *value* of the power that BPA would sell to the DSIs is its value in the market,⁵ and a fundamental principle should be that the region should not make aluminum when prices are high, and should encourage it when prices are low.

Therefore, to get maximum value from serving the smelters, NWECC suggests selling to them at a price indexed to market prices, or perhaps to streamflow forecasts rather than at BPA's melled rate. For example, the rate might be set at 5-10 mills/kW-hr below the 12-month forward strip price.⁶ This would allow the smelters to operate under moderate power prices, but not when

⁴ In general NWECC does not take positions on the Exchange since our membership includes both IOUs and POUs and customers of IOUs and POUs.

⁵ This is, of course, true for sales to other customers as well. However it is more important in the case of the DSIs because it is recognized that they are swing plants very sensitive to price; and, because BPA has more discretion in fashioning a pricing structure with the DSIs than with traditional utilities serving all classes of customers.

⁶ We would also recommend a floor value, perhaps indexed to aluminum prices. There is no reason to subsidize the rate when low market prices and/or high aluminum prices permit profitable operations without a subsidy.

prices got higher, perhaps due to drought. The value of this "subsidy" could be set so that on a long-term forecast basis, it is equal to what melded prices would be valued against the market.

NWEC also supports giving Bonneville predictable and usable interruptible rights as part of the deal--and not as an extra add-on. These should include short-term rights limited to perhaps 250 hours per year that BPA could exercise at its discretion, and long-term rights of up to six months that could be exercised *only* to ensure Bi-op required flow and spill levels during specified drought conditions (e.g. when flows are predicted to be less than about 80 MAF.) Any long-term interruption must include protection of worker pay and benefits. Please see NWEC's recent resolution on DSI service that we submitted to the Council's website this week for more extensive comments on this issue.

Recommendation: Pricing of power for the DSIs should be structured so that it provides maximum value to BPA and its other customers, especially to help BPA cope with the volatility of secondary sales volume and revenue.

P. 19-25 (General comments on the Draft's discussion of conservation): NWEC strongly supports the Draft's discussion and recommendations on conservation, and we will make only a few brief comments, below, on some of the details. In some key respects these recommendations may be superior to those that we advocate in our public interest proposal, and we commit to reevaluating our positions in light of the Draft. Of particular note, in comparing it to our proposal, are the Council's recommendations to strengthen BPA's role in several ways: (1) giving Bonneville responsibility for a larger portion of the amount given to regional vs. local programs (30-50%); (2) instead of relying on a threat to take back a discount for inaction after the fact, the Council recommends payments based on demonstration of progress; and, (3) the recommendation for BPA to begin the transition to this new revised mechanism as soon as possible regardless of the outcome of the settlement discussions.

P. 22 (Decrement of net requirements): The Draft recommends that Bonneville not decrement customers' net requirements for conservation achievements, because it would be a strong disincentive--and, we would add, an incorrect price signal of the value of that achievement. While we support the intent of this recommendation, we are not at all sure it is legal, since the calculation of net requirements is not discretionary. There are other ways to achieve the desired outcome, however, that would work without legal problems. The first is our recommendation we make above (discussion on the Draft p.14) about pricing only the first 90% of each customer's requirement at an embedded cost. Then each kWh reduction would come off the higher priced 10% tier. Another mechanism would be for BPA to resell the power saved at market prices and credit the utility with the revenue.

Recommendation: The Council should re-examine the legal ramifications of its recommendation regarding decrements due to conservation achievements. We suggest alternate methods to achieve the same goal if there are legal problems.

Low-Income Weatherization: The Draft is amiss in overlooking an important issue: the appropriate level of low-income weatherization progress that should be provided for. There is ample evidence that the pool of eligible unweatherized dwellings is not being weatherized at a very rapid rate. A recent study by the State of Oregon's Housing and Community Services Dept. estimated that at present weatherization funding levels (including utility, federal, state and other sources), it would take roughly 100 years to finish the job. We urge the Council to recommend a much faster pace, not only to capture the modest, but significant, energy savings, but to remedy

the serious social problems that these unweatherized homes cause. In 1996 in Oregon, the Governor's Blue Ribbon Committee on low-income issues recommended that a pace of 20-years is a more reasonable goal.

Recommendation: The Council should set a goal of weatherizing all eligible low-income homes in the region in 20 years as a part of its overall conservation target.

P.25 (Renewables): NWECC endorses the comments of Angus Duncan on this issue.

P.26 (Stable funding for fish and wildlife): We support the Council's recommendation that we need a better process to specify funding levels for fish and wildlife. We would also welcome more certainty that fish funding levels (and hydro operations) would be met and not subject to BPA's financial mistakes and fortunes. Since it appears that there will be few Slice takers, the hope that some have had for the customers' proposal--though not shared by us--as a way to shield BPA from risk appears to be fading.

We are concerned with the customers' desire to have the ability to control Bonneville's budget (see discussion above). We are also concerned that non-customer stakeholders may not have third-party authority to enforce BPA's contracts in areas that significantly impact the public interest. For example, the contracts the customers envision will require certain actions to further conservation and renewables goals. How will third parties be able to make sure that Bonneville holds its customers to those actions? In another area of the customers' proposal, certain utilities will be required to plan for their own load growth. What is to prevent BPA and the customers from agreeing to not enforce this provision during a drought and instead look to BPA's "authority" to declare a hydro emergency?

Recommendation: New contracts between the customers and BPA should have provisions enabling third-party stakeholders to initiate dispute resolution over limited areas of the contracts which concern the public interest.

CONCLUSION

NWECC thanks the Council for its constructive analysis of these important issues. We welcome any further opportunities to provide input and remain active participants in this process.