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keeping**CURRENT**

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SELLING FEDERAL POWER IN THE FUTURE

If the Bonneville Power Administration is to provide the Northwest with benefits into the 21st century, it must earn sufficient revenues. Today, with deregulation of the wholesale electric market, competition is intense. Market share is changing hands with each week that goes by, and opportunities for securing stable and predictable revenues narrow.

Although it is a federal agency, BPA does not receive tax money. It must cover all its costs with revenues it earns in the market by selling its goods and services. From these revenues, BPA funds fish and wildlife, conservation and renewable energy programs. It also uses its revenues to meet its repayment obligations to the U.S. Treasury on the federal investment in the dams and the transmission lines.

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F E D E R A L P O W E R S U B S C R I P T I O N

BPA supplies about 40 percent of the Northwest's electricity and three-quarters of the region's high-voltage transmission. BPA sells at the wholesale level to other utilities and to a few "direct service" industries and public agencies. The way BPA will sell much of its power in the future is called the "subscription process."

This process, laid out by a "Comprehensive Review of the Northwest Energy System" led by the four Northwest governors, defines how and to whom the region's federal power should be sold. This review, convened in 1996 and involving a broad cross-section of regional interests, recommended that BPA capture and deliver the low-cost benefits of the federal hydropower system to Northwest consumers. BPA will do this by offering a specific type of contract to retailers who can pass these benefits on to consumers beginning in 2001.

But these potential BPA customers are not waiting until 2001

to arrange their 21st century power supplies. Many are looking for sellers who can offer them low, stable, long-term rates now.

As Dave Piper, president and chief executive officer of the Pacific Northwest Generating Cooperative, has said, "PNGC is already considering its power supply options for the period beyond 2001 and would like to make BPA power a significant portion of its resource portfolio. But, if Bonneville cannot enter into negotiations with us soon for subscription power we may end up doing business with other suppliers."

In return for longer-term predictability and stability, utility customers are willing to pay more for multi-year power products. The key advantage of the multi-year firm power market to BPA is that it provides the highest and most stable revenue stream over time. This helps ensure that BPA will be able to continue to provide the public benefits the region has come to value for over 60 years.

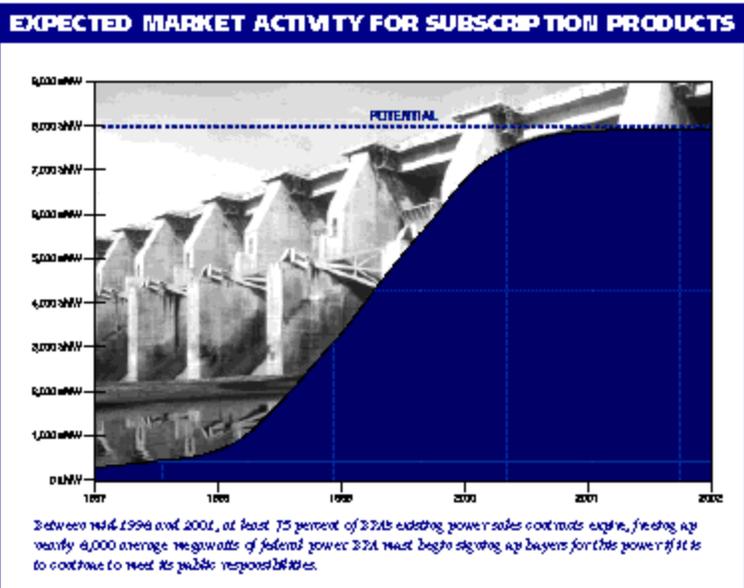
B P A M U S T G E T M O V I N G

But time is of the essence. Between 1998 and 2001, at least 75 percent of BPA's currently committed long-term sales expire.

Missing the long-term market to replace these sales would put as much as 20 percent of BPA's revenues at risk. Competitors are lining up to get this business.

If BPA were unable to sell a significant share of the federal system capacity through subscription, the agency would have to sell more of its power in the commodity and spot markets. These markets are volatile, like the stock market, and subject to wide swings in prices, but on average return much less revenue per kilowatt-hour than the multi-year market. The reduced level of revenues added to the greater instability of these markets would reduce the likelihood that the agency would be able to make all scheduled repayments to the Treasury on time.

And it would seriously threaten BPA's ability to continue funding Northwest fish and wild life programs at current levels.



WEST COAST POWER SURPLUS KEEPS PRICES LOW
AND COMPETITION HIGH

A large surplus of generating capacity throughout the West Coast could continue downward pressure on wholesale electricity prices well after 2001. This makes for a buyer's market and intense competition. Wholesale electricity marketers from outside

the Northwest and investor-owned utilities within the region are using it to expand their customer bases. This threatens to erode EPA's customer base unless the agency acts aggressively to begin subscribing customers in 1998.

DEVELOPING THE PLAN

EPA is working to develop a policy for subscription sales of cost-based federal power. The agency wants to encourage the participation of interested parties, as a number of important issues are affected by the success of the subscription process. In fact, all of EPA's stakeholders, including tribes and environmental groups, should be paying attention.

The four steps of subscription planning and execution are:

1. Identify and design initial subscription products and services. This step is nearly complete.
2. Design a process by which customers sign up for cost-based federal power. This will include rules for determining eligibility for federal power and the procedures for subscribing. Workshops are now under way.
3. Determine the price of various products and services available for subscription. Workshops are planned.
4. Negotiate subscription contracts with customers for post-2001 supplies of cost-based federal power. This is bilateral – between EPA and each customer – and governed by the policy determinations of steps 1 through 3.

The last step is expected to be an extended period – perhaps as long as two years – as some customers will wish to act early, while others will not care to arrange these supplies until much later.



**FUTURE FISH
FUNDING
AGREEMENT**

A 1996 memorandum of agreement that stabilized EPA's obligations for funding Northwest fish and wildlife programs was based on the twin principles that saving salmon is critically important and that developing a stable, multi-year budget for this effort is vital to give EPA the financial predictability it needs. In order for the subscription process to be most successful, EPA must be able to assure its customers that its costs, including fish and wildlife, are reasonably under control.

EPA now is actively working with the region's federal, state, and tribal agencies, and other constituents, to discuss future fish funding options. EPA believes that an agreement can be crafted that assures stable funding for fish and wildlife from EPA power revenues, and the financial integrity of the agency as a whole.



N E X T S T E P S

EPA plans to hold update meetings to encourage participation in developing subscription, answer questions from potential customers and other interested parties, and take comments. Here is the current schedule:

- Update meeting:**November 25, 1997, in Spokane, Washington.
- Update meeting:**Mid-February 1998, marking the end of step 2 - location and time to be determined.
- Step 3:** Should begin in March 1998, and may end as early as July.
- Step 4:** Negotiations with customers, could commence following Step 3. This step could take up to two years.

N E E D M O R E I N F O R M A T I O N

If you'd like more information about the federal power subscription process, please contact a EPA account executive or the nearest EPA office listed below:

- Portland, Ore:**(503) 230-3478
.....(800) 622-4519
- Spokane, WA:**(509) 353-2515
- Boise, ID:**(208) 334-9137
- Washington, D.C.:**(202) 586-5640

B O N N E V I L L E P O W E R A D M I N I S T R A T I O N

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