

# issue alert

September 2005

## Charting the region's power future through the Long-Term Regional Dialogue

**A**t its most basic, the Regional Dialogue is about the future of the Pacific Northwest. Certainly, how electrical power resources are developed, priced and sold in the future will be an important determinant of the region's economic growth. The Northwest's ability to grow its economy will either be facilitated or restricted by the development of adequate power supplies. The Regional Dialogue, which focuses on the Bonneville Power Administration's long-term power supply role, represents a unique opportunity for the region to shape not only its electric future but its economic future as well.

### Why it's important

The Pacific Northwest has traditionally enjoyed some of the lowest cost and cleanest energy in the nation thanks to its remarkable federal hydropower system. This resource – known as the Federal Columbia River Power System – has been a cornerstone of the region's economy for nearly seven decades, providing incalculable value. But, it is a finite resource and, without careful planning and policy making, its value

could be diminished or even lost to the region.

This became apparent just after the turn of the century as the finite nature of the FCRPS came into sharp focus. In 2000, customers placed almost 3,000 megawatts of load on BPA beyond what the federal system could provide. As the West Coast energy crisis unfolded, BPA was forced into a very expensive power market to meet its obligation to serve regional loads. This led to a large rate increase. While the crisis has passed, the wholesale power market has remained volatile, and many believe that one of the underlying causes of the crisis – supply and demand – has only been masked, not solved.

The Regional Dialogue is an opportunity to ensure that a similar scenario won't happen again, at least not in the Northwest. It is an opportunity to lay the foundation for a long-term energy future that is reliable, predictable, efficient, low cost and environmentally sound. In short, it is an opportunity for our generation to create a legacy for the next generation.

### The goals of the Regional Dialogue

The Regional Dialogue was set up to engage the region in defining BPA's power supply and marketing role for the long term and to do so in a way that meets key regional and national goals. The long term refers to the period after 2011 when current wholesale power contracts expire. Goals include:

- Promoting development of the regional infrastructure – a key to a healthy regional economy – by creating certainty that can lead to nonfederal resource development;
- Limiting BPA costs, rates and risks;
- Giving the region's utilities and direct-service industries greater certainty about the amount of power and financial support they will receive from BPA;
- Reducing the frequency of legal and political conflict over BPA contracts and rates;
- Putting development of the region's conservation and renewable resources on a solid footing; and
- Ensuring we continue to make our U.S. Treasury payment in full and on time.



## Why act now

While 2011 seems a bit distant, it is not far away in terms of energy planning. New resources have long lead times, so the region must begin to develop infrastructure now. "Most likely" load forecasts indicate that BPA's public customer requirements would be near the federal system firm power output as soon as 2012. Any surplus would evaporate if load growth were robust.

Utility contracts with BPA expire in 2011. BPA hopes to start signing new 20-year contracts by 2007. Long-term contracts are key to giving the region's utilities the certainty they need to plan their own futures as well as promoting private-sector development of regional electric infrastructure and providing BPA a stable revenue flow.

Historically, BPA's strengths have been in operating the transmission system and marketing power from the hydro system. Periods of large rate increases have been associated with resource acquisition, dating from the nuclear program 25 years ago to the more recent market purchases in 2000-2001 to meet demand for power that far exceeded the federal system capability. BPA customers agree that BPA should not continue to acquire new resources whose costs are then melded with the lower costs of the existing federal

system. If BPA is not to be the region's primary resource developer, it's important that BPA develop its rate and price structure soon to send timely signals to utilities on how much resource they need to develop themselves or acquire from other suppliers.

## The Regional Dialogue – a brief history

The roots of the Regional Dialogue over BPA's future role date back to 2002 when a group of BPA customers, with BPA encouragement, crafted a "joint customer proposal" that included recommendations for marketing federal power and distributing the costs and benefits of the Federal Columbia River Power System for 20 years.

Since the dialogue began, BPA has received important help from a number of sources. Early on, the Northwest Power and Conservation Council co-sponsored a public comment period on BPA's future role. The region's governors also sent a letter endorsing a dialogue. The Public Power Council submitted an approach for allocating the Federal Base System to BPA's preference customers. And, in a July 2004 report, the Government Accountability Office weighed in endorsing BPA's efforts to reduce the risks presented by an open-ended obligation to

provide power. This input, along with contributions from many other stakeholders, helped inform BPA's current proposals.

## The short term and long term

For practical reasons, over the last two years, the Regional Dialogue was bifurcated into two separate discussions. The first, the Short-Term Regional Dialogue, addressed a narrower set of issues that had to be settled to set the stage for BPA's next power rate case, which will begin formally in the fall of FY 2005 and will set power rates for the FY 2007-2009 period. It also produced a decision for the longer term about limiting sales of power at the lowest cost to approximately the output of the existing federal system. That policy will be implemented in post-2011 wholesale power contracts. The Short-Term Regional Dialogue ended in February 2005 with release of BPA's Short-Term Regional Dialogue Policy and Record of Decision. The policy incorporates input from customers, tribes, constituents, industries and the general public.

The Long-Term Regional Dialogue, which addresses a more comprehensive set of issues for the longer-term future, kicked off following the closeout of the Short-Term Regional Dialogue. It is ongoing now.

## The concept paper

As the Long-Term Regional Dialogue proceeded, it became clear that, while there was general agreement on broad goals, reaching those goals would require resolution of a number of specific issues. As a result, BPA drafted the Long-Term Regional Dialogue Concept Paper as a “straw proposal” to provide context and help facilitate the discussion. Publication of the concept paper kicks off a 90-day regional effort to create alignment on these issues before BPA issues a formal policy proposal for public comment.

The concept paper does not represent any decisions and is not even a formal policy proposal. It is intended to bring focus to the key issues and to help the region achieve alignment in defining BPA’s long-term power marketing role. In addition to discussions on the preliminary proposals in the concept paper, BPA also is interested in other ideas the paper may generate.

## Setting the context

The Regional Dialogue discussion assumes that any rate structure must ensure that BPA meets its payments to the U.S. Treasury and its public responsibilities, such as those for fish and wildlife. It also assumes no new legislation would be sought since the ability to secure legislation is highly uncertain, and it

is very risky to base a contract strategy on potential enactment of federal legislation.

In February, BPA made a decision to limit the amount of power it sells at its lowest cost-based rate to the output of the existing system – about 7,300 average megawatts. Additional service would be provided at a higher “tiered” rate, and this policy would be implemented in the post-2011 long-term contracts and rates. The concept paper fleshes out how BPA proposes to follow through on that decision.

## Service to public power

Under the proposal, each public customer would get a right to purchase a limited amount of power priced at the lowest-cost rate tier. This is similar to the allocation proposal provided by the Public Power Council. Beyond that amount, customers would either develop their own resources (which could be generation or conservation), buy power on the market or buy power from BPA at a higher-tier rate reflecting the full cost and risk of new power sources. Through a combination of tiered rates and long-term contracts, each customer will know for many years into the future what load is going to be served by federal resources at the lowest rate and what isn’t.

A key issue is defining how much of the Tier 1 (lowest rate) power each customer gets. The concept paper outlines a formula for making this determination, which is also derived from the Public Power Council’s proposal.

## The residential exchange

An important issue for the region will be determining an appropriate level of benefits for the residential and small-farm consumers of investor-owned utilities. This has been a highly divisive issue within the region for a number of years, and resolution of this issue will go a long way toward aligning regional interests and reducing conflict.

In lieu of reinstating the Residential Exchange Program, BPA proposes an agreement that would provide investor-owned utilities with a benefit that is roughly equivalent to what they would get if the exchange program were reinstated. Such an agreement, similar to the one now in effect, would save BPA and its ratepayers millions of dollars in administrative costs while giving the IOUs greater long-term certainty about the benefits they will be receiving. And, at the same time, it could reduce the potential for litigation and conflict.

## Service to direct-service industries

The region's aluminum industry, which has been served directly by BPA, has provided benefits to the region for decades by providing jobs and bolstering the economy of several local communities. Current Subscription contracts for service to direct-service industries expire in 2006. Following a lengthy public process, BPA decided last June to offer contracts to four DSIs through 2011. Service is limited to a maximum 577 average megawatts (or the financial equivalent) and a cap of \$59 million a year.

BPA is not required by law to continue this service beyond 2011 but is proposing to do so to help sustain important jobs within the region. The proposal is intended to give the remaining DSIs an opportunity – but not a guarantee – to provide employment. The level of service has been set to minimize rate impacts to other customers and limit risks to BPA. Service at a known and capped level would provide both a balance of economic interests for the region and greater certainty to the DSIs.

## Other issues

The concept paper also provides straw proposals for addressing a number of other important issues. These include:

- Determining products and pricing for requirements customers;
- Determining how resource adequacy standards should be supported in contracts;
- Deciding the appropriate role for BPA in conservation acquisition and renewables development;
- Building customer confidence that BPA is managing its costs carefully and keeping rates as low as possible; and
- Handling dispute resolutions.

## Long-term contracts

It's anticipated that most of the decisions made as part of the Long-Term Regional Dialogue will be captured in the new 20-year contracts and rates. Which decisions would be part of contracts and which would be part of rates is still under discussion, but it is obvious that contracts and rates must be logically linked and issues resolved in tandem with the two processes.

Currently, BPA is considering a schedule that could have customers signing Regional Dialogue contracts in August 2007, with an earliest contract effective date of October 2008 but no later than October 2011. The 20-year duration of such new contracts would begin on the date contracts are signed, not the date of taking service. The standardized contract prototypes would be offered for public review before they are finalized.

## Key benefits

The new 20-year contracts, along with the tiered rate proposal means that, for the first time, all the available firm output of the existing federal system would go to public utilities at cost, and each utility would have a 20-year certainty about its rights to power at the lowest rate. This certainty would allow utilities to carry out plans for meeting their load growth without concern that they might miss out on power from BPA if they develop their own power sources.

Public utilities would be assured that the Tier 1 rate would be kept low because the past practice of melding higher-cost power acquisitions with the lower cost of the existing hydro would be eliminated. The rate would also be kept more certain by greatly reducing uncertainties about the amount of residential exchange payments to investor-owned utilities and service to direct-service industries. Proposals for managing the Residential Exchange Program are addressed in detail in the concept paper.

Providing each utility with well-defined rights to Tier 1 power can also benefit the region's economy by enabling development of needed infrastructure. Many public utilities have shown interest in developing new resources for future loads, and

resource developers are poised to work with them. But the utilities say they worry they will miss out on opportunities to buy more low-cost power from BPA if they develop their own new resources. Contracts defining 20-year rights will largely eliminate that worry and allow these utilities to move forward with the infrastructure investments needed to support the region's economy.

This does not mean that public utilities would be forced to develop their own resources. If they wish, they can still rely on BPA to acquire additional power for them after they use up their right to the lowest-rate power, but they would pay a higher rate for this Tier 2 power.

Reducing regional legal conflict is another benefit of this proposal. Basing the rate for all the Tier 1 products on a common set of costs has the potential to reduce disputes among public utilities over which costs should be paid by which customers – disputes that divert attention from building for the future.

The proposal has significant benefits to BPA as well. BPA's need to acquire new resources, though not necessarily eliminated, is likely to be much smaller. Both BPA and the U.S. Treasury would benefit from reduced risk exposure in several ways. First, BPA's Tier 1 rate is more assured of staying well below market because

new resource costs would not be melded into it. This would increase the assurance that all costs of the existing system are paid, including debt service payments to the Treasury. Second, 20-year take-or-pay contracts would provide a reliable long-term revenue stream to BPA and the Treasury. Third, electric industry infrastructure development will reduce the chances of price spikes and enhance reliability.

Finally, the proposals for treatment of investor-owned utilities' residential and small-farm consumers and direct-service industries also offer a means for resolving long-standing conflict in the region and providing long-term certainty about benefits to these parties.

## What happens next

If the region is to forge a reliable and low-cost energy future, it will be important that the various participants in the dialogue come to the table seeking alignment and willing to make tradeoffs. We are setting up intensive and collaborative public workshops over the next three months to help customers and other stakeholders reach as much agreement as possible on each of the outstanding issues. These workshops will use the concept paper as a starting point for discussion.

At the conclusion of these workshops, BPA will develop a formal policy proposal that is tentatively scheduled for release in early 2006, followed by a public comment period. Under this schedule, a record of decision on long-term issues covered in the Regional Dialogue would be issued in spring 2006.

## Where to get more information

The concept paper and a separate summary of the issues in that paper are available on the Regional Dialogue Web site at [www.bpa.gov/power/regionaldialogue](http://www.bpa.gov/power/regionaldialogue).

## How to comment

The preferred way is to submit comments online at: [www.bpa.gov/comment](http://www.bpa.gov/comment).

Comments may also be mailed to:

Bonneville Power Administration  
Attn: Communications - DM-7  
P.O. Box 14428  
Portland, OR 97293-4428

Or fax comments to (503) 230-3285.

For more information, please contact your BPA customer, constituent or tribal account executive or Helen Goodwin at (503) 230-3129.