

**BONNEVILLE POWER ADMINISTRATION
NATIONAL ENVIRONMENTAL POLICY ACT
RECORD OF DECISION**

**Policy for Power Supply Role for Fiscal Years 2007-2011
(REGIONAL DIALOGUE)**

SUMMARY

The Bonneville Power Administration (BPA) has decided to adopt a policy on the agency's power supply role for fiscal years (FY) 2007-2011. This policy is intended to provide BPA's customers with greater clarity about their Federal power supply so they can effectively plan for the future and make capital investments in long-term electricity infrastructure if they choose. It is also intended to provide guidance on certain rate matters BPA expects to be addressed in the next rate period, while assisting the agency in aligning its long-term strategic goals and its long-term responsibilities to the region. This Policy for Power Supply Role for FY 2007-2011, which is the result of a Regional Dialogue process that began in April 2002, is described more fully in a separately issued Administrator's Record of Decision (ROD) that addresses the legal and policy rationale supporting the administrative decisions in the Regional Dialogue.

In accordance with the National Environmental Policy Act, I have reviewed the environmental evaluation for each of the policy issues and determined that for some, NEPA is not implicated because there are no environmental effects; for others, NEPA is not triggered because the issues are a continuation of the status quo; and for the remaining issues, any environmental effects have already been addressed in the Business Plan Environmental Impact Statement (DOE/EIS-0183, June 1995). This EIS was prepared to support a number of decisions including the products and services BPA will market, rates for BPA's products and services, policy direction for BPA's sale of power products to customers, contract terms BPA will offer for power sales, and plans for BPA resource acquisitions and power purchase contracts. All together, the Regional Dialogue policy issues result in a final policy that is consistent with the Market-Driven Alternative adopted in the Business Plan ROD (August 15, 1995). I therefore have determined that it is appropriate to tier this Regional Dialogue NEPA ROD to the Business Plan ROD.

BPA'S BUSINESS PLAN EIS AND RODS

In order to participate successfully in the increasingly competitive wholesale electricity market, BPA recognized in the 1990s that it needed an adaptive policy to guide the agency in meeting both its business and public service missions. BPA therefore prepared the Business Plan EIS to support a number of decisions, including policy direction for BPA's sale of power products and services and the contract terms BPA will offer (Business Plan EIS, section 1.4). BPA identified several purposes for consideration, including: achieving strategic business objectives;

competitively marketing BPA's products and services; providing for equitable treatment of Columbia River fish and wildlife; achieving BPA's share of the Northwest Power and Conservation Council's (Council) conservation goal; establishing rates that are easy to understand and administer, stable and fair; recovering costs through rates; meeting legal mandates and contractual obligations; avoiding adverse environmental impacts; and establishing productive government-to-government relationships with Indian Tribes (Business Plan EIS, section 1.2; Business Plan ROD, sections 5 and 6).

BPA's Business Plan EIS evaluates six alternative business directions: Status Quo (No Action); BPA Influence; Market-Driven; Maximize Financial Returns; Minimal BPA; and Short-Term Marketing. Each of the six alternatives provides policy direction for deciding 19 major policy issues that fall into five broad categories: Products and Services, Rates, Energy Resources, Transmission, and Fish and Wildlife Administration (Business Plan EIS, section 2.4). Four policy options, or modules, were also developed for key issues, including Fish and Wildlife Administrative Policies, Rates Designs, Service to DSIs, and Acquisition of Conservation/ and Renewable Resources. The alternatives and modules are designed to cover the range of options for the important issues affecting BPA's business activities, as well as the impacts of those options, and variations can be assembled by matching issues and substituting modules among the six alternatives (Business Plan EIS, section 2.1.2). All of the alternatives and modules are examined under two widely different hydro operations strategies that served as "bookends" for reasonably possible hydro operations. These alternatives thus represent a range of reasonable alternatives for BPA's business activities and BPA's ability to balance costs and revenues.

The Business Plan EIS focuses on BPA relationships to the market (Business Plan EIS, section 2.1). Previous environmental studies for key BPA actions had shown that actual environmental impacts are determined by the responses to BPA's marketing actions, rather than by the actions themselves (Business Plan EIS, sections 2.1.5 and 4.1.2). These market responses, discussed in detail in section 4.2 of the Business Plan EIS, are: resource (including conservation) development; resource operation; transmission development and operation; and consumer behavior. These market responses determine the environmental impacts, which include air, land, and water impacts, as well as socioeconomic impacts (Business Plan EIS, Figure 2.1-1 and Figure S-2).

With this knowledge, BPA used market responses as the foundation for the environmental analyses of alternatives and modules in sections 4.4 and 4.5 respectively of the Business Plan EIS. Section 4.4.3 also included an "illustrative numerical example." As can be seen from the environmental analyses and summarized in Tables 4.4-19 and 4.4-20, differences in total environmental impacts among the alternatives are relatively small. Other business aspects, such as loads and resources, show greater variation among the alternatives.

Each of the alternative business directions examined in the Business Plan EIS is also evaluated against the purposes for the action to determine how well each of the alternatives meets the need (Business Plan EIS, section 2.6.5). Based on the evaluation of potential environmental impacts and the comparison of each alternative to the identified purposes, the Administrator chose the Market-Driven alternative. As documented in the August 1995 Business Plan ROD, the Market-Driven alternative strikes a balance between marketing and environmental concerns. It also

assists BPA in maintaining the financial strength necessary to continue a relatively high level of support for public service benefits, such as energy conservation and fish and wildlife mitigation activities.

BPA included many mitigation response strategies in the Business Plan EIS to address changed conditions and allow the agency to balance costs and revenues. These response strategies include measures that BPA could implement to increase revenues, decrease spending, and/or transfer costs if the agency's costs and revenues do not balance (Business Plan EIS, section 2.5). The Administrator committed to apply as many mitigation response strategies as necessary to balance costs and revenues and to meet BPA's public service and environmental obligations while remaining competitive in the marketplace (Business Plan ROD section 7).

The Business Plan EIS and ROD also documented a decision strategy for tiering subsequent business decisions (Business Plan EIS, section 1.4; Business Plan ROD, section 8). For each such decision, as appropriate, the BPA Administrator reviews the Business Plan EIS and ROD to determine if the proposed subsequent action falls within the scope of the Market-Driven Alternative evaluated in the EIS and adopted in the ROD. If the action is found to be within the scope of this alternative, the Administrator may tier his decision for the proposed action under NEPA to the Business Plan ROD and thus issue a "tiered" ROD. Tiering a ROD to the Business Plan ROD helps BPA delineate decisions clearly, and provides a logical framework for connecting broad programmatic decisions to more specific actions (Business Plan EIS, section 1.4).

RELEVANT SUBSEQUENT TIERED RODS

Since 1995, over 35 strategic business decisions have been implemented through the Business Plan EIS and ROD. Several of these RODs are directly applicable to this Regional Dialogue policy.

POWER SUBSCRIPTION STRATEGY

In December 1998, BPA issued an Administrator's ROD for its Power Subscription Strategy for entering into new power sales contracts with Pacific Northwest customers. The strategy equitably distributes the electric power generated by the Federal Columbia River Power System (FCRPS), within the framework of existing law. The Power Subscription Strategy addresses the availability of power; describes power products and contracts; and provides strategies for pricing, including risk management. The Power Subscription Strategy also further refines rate design approaches to be used to establish rates during subsequent power and transmission rate cases. In December 1998, BPA issued an Administrator's ROD for its Power Subscription Strategy for entering into new power sales contracts with Pacific Northwest customers.

As part of its consideration of a Power Subscription Strategy, BPA conducted a NEPA evaluation. This NEPA evaluation is described in the December 1998 NEPA ROD that was prepared and issued separately from the Administrator's Power Subscription Strategy ROD. Consistent with the approach laid out in the Business Plan EIS and ROD for tiering subsequent business decisions, the Administrator reviewed the Business Plan EIS and ROD to determine if the Power Subscription Strategy was within the scope of the Market-Driven Alternative

evaluated in the EIS and adopted in the ROD. In the NEPA ROD, the Administrator determined that the Power Subscription Strategy is a direct application of BPA's Market-Driven approach adopted in the Business Plan ROD, and that the potential environmental impacts of the Power Subscription Strategy were adequately covered in the Business Plan EIS. The Administrator also noted that risk management strategies, such as a cost recovery adjustment clause (CRAC), in the Power Subscription Strategy are consistent with the mitigation response strategies in the Business Plan EIS and ROD.

2002 POWER RATES

BPA also conducted a NEPA analysis for the 2002 Wholesale Power Rate Adjustment Proceeding for the FY 2002-2006 rates (WP-02 Rate Case) and included it in the Administrator's ROD for the 2002 Final Power Rate Proposal prepared in May 2000. This analysis addressed the various elements of the WP-02 proposal, including the possible use of a CRAC to allow BPA to address potential revenue shortfalls. The Administrator noted that the WP-02 proposal includes many features that would help BPA achieve the goals of BPA's Power Subscription Strategy and found the WP-02 proposal to be consistent with the Power Subscription Strategy and its associated ROD. In addition, the Administrator determined that the WP-02 proposal fell within the scope of the Business Plan EIS, based on a review of the Business Plan EIS and its evaluation of environmental impacts related to various rate design issues for BPA's power products and services. The Administrator therefore found that the WP-02 proposal was consistent with the Business Plan as well as the Business Plan EIS and ROD. Thus, the NEPA analysis included in the Administrator's ROD was properly tiered to the Business Plan ROD.

In December 2000, BPA announced proposed amendments to the WP-02 proposal. After BPA released these proposed amendments, changes in reserve forecasts and market prices led to settlement discussions between BPA and rate case parties. After a Partial Settlement Agreement was reached with many of these parties, BPA prepared a June 2001 Administrator's ROD for the 2002 Supplemental Power Rate Proposal. This Supplemental Proposal reflected the three separate CRACs that were negotiated with the parties as part of the terms of the Partial Settlement Agreement. The Administrator's ROD for the Supplemental Proposal included a NEPA analysis that supplemented the NEPA analysis prepared for the 2002 Final Power Rate Proposal. In this analysis, the Administrator noted that the Supplemental Proposal was a continuation of the WP-02 rate proposal and determined, after a review of the Business Plan EIS, that the Supplemental Proposal was within the scope of the Business Plan EIS and the Market-Driven alternative adopted in the Business Plan ROD.

SAFETY-NET CRAC

In June 2003, the Administrator issued an Administrator's ROD on BPA's decision to implement the Safety-Net Cost Recovery Adjustment Clause (SN CRAC) Adjustment to 2002 Wholesale Power Rates. This rate adjustment allows BPA to address potential revenue shortfalls and recover its costs through rates. SN CRAC represents implementation of one of BPA's risk management tools that were conceptually identified and evaluated in the Business Plan EIS and ROD, and more specifically identified and evaluated under NEPA as part of BPA's Power Subscription Strategy and WP-02 rates. The Administrator reviewed the previous NEPA documentation, and found that the SN CRAC was adequately covered within its scope and that the rate adjustment would not result in significantly different environmental effects. Therefore,

the administrator determined that it was appropriate to tier the SN CRAC NEPA ROD to the Business Plan ROD.

BACKGROUND

The Regional Dialogue process began in April 2002 when a group of BPA's Pacific Northwest electric utility customers submitted a "joint customer proposal" to BPA that addressed both near- and long-term contract and rate issues. The proposal focused on how BPA would market Federal power and distribute the costs and benefits of the FCRPS under 20-year power sales contracts as a means to settle litigation on the Residential Exchange Program Settlement Agreement signed in 2000. It was believed that both near- and long-term issues could be resolved before BPA's next rate period in October 2006. Since then, BPA, the Council, customers, and other interested parties have continued to work on both near- and long-term issues. Considering the depth and complexity of these issues, BPA concluded it was not practical to resolve all of the issues before the start of the next rate period.

BPA's current firm power rates expire at the end of FY 2006. Nearly all of BPA's regional power sales contracts continue through FY 2011. BPA believes its first priority is to resolve policy issues that likely will influence the last five years of those contracts, the next rate case, and decisions to be made by customers concerning BPA's power service during that period. In February 2004, BPA decided to address the issues in two phases. The first phase—"Policy for Public Power Supply Role for FY 2007-2011"—addresses issues that must be resolved in order to replace power rates that will expire in September 2006. This first phase includes both "An Integrated Strategy for FY 2007-2011" that addresses 12 policy issues and "A Long-Term Policy: Limiting BPA's Long-Term Load Service Obligation at Lowest Cost Rates for Pacific Northwest Firm Requirements Loads." These decisions in the first phase are intended to create certainty for the FY 2007-2011 period and set the stage for the second phase of the Regional Dialogue that follows. The second, or long-term, phase will address issues that are critical to determining how BPA in the longer term will market Federal power and distribute the costs and benefits of the FCRPS for 20 years, with the objective of implementing new 20-year contracts well before current power contracts expire in FY 2011.

Underlying the Regional Dialogue's focus on addressing BPA's power supply role is the need to assess and understand the impact the 2000-2001 West Coast electricity crisis has had on BPA and its customers. The financial impacts of the West Coast electricity crisis led many utilities to examine their policies and approaches to their power supply. In early 2003, BPA initiated a detailed examination of the events, beginning in 2000, which led to the significant rate increases and deterioration of BPA's financial condition. On April 18, 2003, BPA released a Report to the Region that included lessons the agency learned, with the intention of translating those lessons into future actions. Among a number of other lessons, the report noted that the level of BPA's costs and risks are driven heavily by the load obligations BPA assumes under contracts with customers. Meeting those load obligations was a large driver of BPA's cost and rate levels. The report pointed out that the amount of risk (market volatility and uncertainty) to be managed in the whole region's power system has grown substantially, and the fraction of that risk that BPA can absorb has gotten smaller. The report also noted that BPA must avoid the need to acquire large amounts of power on short notice to meet customer load demand. This policy has been

developed specifically with those lessons in mind, particularly to resolve the agency's customer load service uncertainty as soon as possible and provide customers with the power supply clarity they need.

The Report to the Region highlighted the need for BPA to have a clear and steady strategy and manage to clear objectives. In response, BPA devoted a significant amount of time and effort clarifying its strategic direction. BPA's strategic direction establishes the agency's most important objectives and the actions that will help it manage to these objectives. The strategic direction calls on BPA to advance the Pacific Northwest's future leadership in four core values: high reliability, low rates consistent with sound business principles, responsible environmental stewardship, and clear accountability to the region. This re-examination of BPA's mission and core values has, along with comments and advice from the Council, customers, constituents, tribes, and other regional stakeholders, helped inform the agency's approach to the Regional Dialogue.

SUMMARY OF THE REGIONAL DIALOGUE POLICY

BPA's Regional Dialogue Policy is based on the agency's strategic direction described above. The Policy is intended to provide BPA's customers with greater clarity about their Federal power supply so they can plan effectively for the future and make capital investments in long-term electricity infrastructure if they choose. It is also intended to provide guidance on certain rate matters BPA expects will be addressed in the next rate period, while assuring that the agency's long-term strategic goals and its long-term responsibilities to the region are aligned to the greatest extent possible. The Regional Dialogue Policy, which provides a comprehensive description of BPA's decision, is available as a separate document, as is the separately issued Administrator's ROD that addresses the legal and policy rationale supporting the administrative decisions in the Regional Dialogue. The first phase of the Regional Dialogue Policy described in these other documents is summarized below, followed by a brief introduction to the second phase and the schedule for long-term issue resolution.

FIRST PHASE

The first phase includes policies for the near term that are intended to address certain issues that must be resolved for the next rate period that will begin on October 1, 2006. These near-term policies are referred to as "An Integrated Strategy for FY 2007-2011." The first phase also includes a long-term policy regarding limiting the agency's load service obligations at lowest cost-based rates for Pacific Northwest firm requirements loads. This long-term policy is intended to help set the stage for the second phase of the Regional Dialogue. The first phase policy issues are:

- **FY 2007-2011 Rights to Lowest-Cost Priority Firm (PF) Rate:** BPA will apply the lowest-cost PF rates to its public agency customers whose contracts contain the lowest-cost PF rate guarantee throughout the remaining term of the Subscription power sales contracts.

- **Tiered Rates:** BPA will exclude a tiered PF rate proposal applicable to firm power load requirements sales to public agency customer from its FY 2007 initial rate case proposal. Tiered rates will be considered as part of the integrated long-term contract and rate solution that will implement the long-term policy of limiting BPA sales of firm power to its Pacific Northwest customers' firm requirements loads at its lowest-cost rates to approximately the firm capability of the existing Federal system.
- **Term of the Next Rate Period:** BPA will limit the duration of the next rate period to three years, from FY 2007 through FY 2009. This will allow BPA to set rates lower than would be needed for a five-year rate period and reduce the need for rate adjustment mechanisms. An additional rate period of two years will run from FY 2010 through FY 2011.
- **Service to Public Agency Customers with Expiring Five-Year Purchase Commitments that Do Not Contain Lowest PF Rate Guarantee through FY 2011:** Public agency customers whose contracts do not currently contain the guarantee of the lowest cost-based priority firm (PF) rates for FY 2007-2011 will receive the same treatment in FY 2007-2011 as customers whose contracts do contain this guarantee. However, those customers without the guarantee must sign, no later than June 30, 2005, a new contract or a contract amendment, extending the terms of their existing contracts, committing them to purchase firm power in FY 2007-2011. Public agency customers that do not meet that deadline will be subject, beginning in FY 2007, to a targeted adjustment charge (TAC).
- **Service to New Public Agency Utilities and Annexed Investor-Owned Utility (IOU) Loads:** Qualifying **new public agency utilities** that request service under section 5(b)(1) of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act), meet BPA's Standards for Service, and sign contracts by June 30, 2005 will receive the lowest cost-based rate for the FY 2007-2011 period. BPA will allow an additional six months for small (less than 10 average megawatts (aMW)) utilities—up to 30 aMW total—to establish and sign a contract to receive service at the PF rate without a TAC if they are able to take service by October 2006. New public utilities that miss the deadline will be subject to a TAC during the next rate period. In the FY 2007-2009 period, a new or existing public agency customer requesting firm power service for an **annexed IOU load**, which contains residential or small-farm load that was receiving residential exchange benefits from the IOU under Subscription Settlement Agreements, will receive a prorated share of the benefits. BPA must be notified and the load annexed by June 30, 2005, otherwise a TAC may apply.
- **Product Availability:** Any **new public customer or existing customer whose contract expires in FY 2006** and who elects to execute a new contract through September 30, 2011 may chose any of the following core requirement products: Full Requirements Service, Simple Partial Requirements Service, Partial Requirements Service with Dedicated Resources, or Block Service (with the optional feature of Shaping Capacity). BPA is not offering Complex Partial (Factoring), Block Factoring, or the Slice product. BPA will not offer contract amendments that would allow **product**

switching or changes in the allocation of products purchased by 10-year Subscription contract holders, including, but not limited to, changes that would increase the total Slice megawatts currently sold by BPA. BPA will consider, on a case-by-case basis, requests from public agency customers to **add non-Federal resources** to their existing contract if those additions will reduce BPA's FY 2007-2011 load-serving obligation without increasing costs or risks to other customers.

- **Service to Direct-Service Industries (DSIs):** BPA intends to provide eligible Pacific Northwest DSIs some level of Federal power service benefits, at a known quantity and capped cost, in the FY 2007-2011 period. This limited financial incentive recognizes the importance of the DSIs to the Pacific Northwest economy. Specific details have not been determined at this time, but will be worked out in a supplemental regional public process.
- **Service to New Large Single Loads (NLSL):** **DSI load**, formerly served at the Industrial Firm Power (IP) rate, that **transfers to local utility service** will be a NLSL and subject to the New Resources (NR) rate if served with Federal power as firm requirements load unless the load qualifies for one of two exceptions. BPA will provide an option to further promote the development and use of **renewables and on-site cogeneration**. If a consumer directly provides on-site cogeneration or acquires a regional renewable resource with an associated transmission path to its load, to serve all or a portion of an otherwise NLSL, and the remaining new load or load increase served by the local utility is reduced to 9.9 aMW or less, then that remaining portion will be served at the PF rate.
- **Service to Residential and Small-Farm Consumers of IOUs:** BPA recently signed, with all six regional IOUs, agreements that provide certainty in the amount and manner that benefits will be provided to their residential and small-farm consumers under their Subscription contracts. However, these agreements have been challenged. In the event a court sets aside the new agreements and amendments but leaves the underlying Subscription contracts in place, BPA is providing the IOUs a contingent notice that BPA will provide financial benefits, not power benefits, during FY 2007-2011 under those contracts. If the Subscription contracts are successfully challenged in court, the agency will follow the court's instructions in negotiating new contracts under the Northwest Power Act.
- **Conservation Resources:** While there has been much discussion about how conservation development might be regionally structured for the post-2006 time frame, BPA has not yet determined what the specific terms and conditions will be. However, BPA has adopted five principles, consistent with the Council's recommendations, to guide the full development of BPA's conservation acquisition programs post-2006. These general principles include the following:
 1. BPA will use the Council's plan to identify the regional cost-effective conservation targets upon which the agency's share (approximately 40 percent) of cost-effective conservation is based.

2. The bulk of the conservation to be achieved is best pursued and achieved at the local level. There are some initiatives that are best served by regional approaches (for example, market transformation through the Northwest Energy Efficiency Alliance.) However, the knowledge local utilities have of their consumers and their needs reinforce many of the successful energy efficiency programs being delivered today.
3. BPA will seek to meet its conservation goals at the lowest possible cost to BPA. While only cost-effective measures and programs are a given, the region can benefit by working together to jointly drive down the cost of acquiring those resources.
4. BPA will continue to provide an appropriate level of funding for local administrative support to plan and implement conservation programs.
5. BPA will continue to provide an appropriate level of funding for education, outreach, and low-income weatherization such that these important initiatives complement a complete and effective conservation portfolio.

BPA will rely on the ongoing collaborative planning process to develop a fully defined proposal for conservation that can be brought to the region for further consideration. In addition, as BPA pursues opportunities to reduce long-term costs to ratepayers, conservation and other demand-side management options will be carefully considered as part of the solution to transmission constraints.

- **Renewable Resources:** BPA will shift from a program focused on direct acquisition to an active and creative facilitation role with respect to renewable resource development. The agency's primary focus will be to reduce the barriers and costs interested customers face in developing and acquiring renewables. The facilitation tools include, but are not limited to, integration services, transmission system improvements, rate discount, and direct acquisition. BPA is also consulting with customers and other stakeholders to identify other options that will help facilitate regional renewables development. BPA will spend up to a net of \$21 million per year to support its facilitation activities. The \$21 million comprises the existing \$15 million renewables fund and \$6 million of annual renewables spending that is currently being accomplished through the Conservation and Renewable Discount (C&RD) program. BPA is actively consulting with customers and other stakeholders to identify other options that will help facilitate regional renewables development.
- **Controlling Costs and Consulting with BPA's Stakeholders:** For the term of existing contracts (through FY 2011), or until new contracts go into effect if that is earlier, BPA will continue to focus on non-contractual means that promote transparency under BPA's financial information disclosure policy, allow for public input on agency costs, and demonstrate management of those costs. BPA recognizes the wide range of concerns about and solutions to long-term cost control and will continue discussions in preparation

for the July 2005 Regional Dialogue policy proposal on long-term issues. Meanwhile, BPA intends to:

1. Engage customers and non-customers in **collaborative forums** to improve the effectiveness and efficiency of BPA's communication processes.
2. Continue to improve its external **financial reporting with customer and constituent input** to increase the clarity and usefulness of BPA's reports.
3. Implement the BPA-wide **Business Process Improvement** initiative begun in July 2004. BPA will provide periodic status reports as significant milestones are achieved.
4. Conduct, early in 2005, an in-depth **Power Function Review**. This regional discussion regarding power function cost levels will be used to set power rates for the FY 2007-2009 rate period.

BPA will consider additional actions to address cost control as part of the long-term regional dialogue policy.

- **Limiting BPA's Long-Term Load Service Obligation:** BPA will limit, to approximately the firm capability of the existing Federal system, its sales of firm power to its Pacific Northwest preference customers' firm requirements loads at its lowest-cost rates. A possible option for providing firm power service beyond what the existing system can supply would be to provide this service at a higher, tiered, rate that reflects the incremental cost of purchasing or acquiring power to meet those additional loads. However, the agency is not proposing to adopt or implement tiered rates until after additional policy discussions are conducted in the second phase of Regional Dialogue. By itself, this long-term policy is not enough. Creating certainty will require the development of new contracts and rates to implement this policy.

SECOND PHASE

BPA's long-term policy regarding its load obligations will be refined and further resolved during the second phase of the Regional Dialogue. In addition, BPA and the region have a strategic interest in resolving a number of key long-term issues. This interest centers on providing BPA customers certainty over load service obligations and facilitating the ability of customers and the market to respond with the necessary electric industry infrastructure investments. Other key issues include market stability, BPA risk management, and assurance of funding to repay the United States Treasury. To become effective, decisions on these issues must be captured in new long-term contracts and rates. BPA is strongly inclined toward 20-year contracts, assuming parties can reach agreement on reasonable terms. BPA intends to seriously explore a tiered-rate methodology to accompany these long-term contracts. BPA also intends to incorporate the issues of regional resource adequacy standards into the next Regional Dialogue phase.

These and other long-term issues will be part of a long-term policy proposal that will be released in July 2005 for public review and comment. However, BPA intends to have additional

discussions with customers, constituents, tribes, and stakeholders regarding these issues before developing the proposal. The proposed schedule for achieving long-term contracts and rates is ambitious, and there are many challenges. A long-term policy is scheduled to be in place by January 2006, with new contracts scheduled to be offered in December 2006. If the proposed schedule were met, the earliest contract effective date that could be expected would be October 2008.

ENVIRONMENTAL ANALYSIS

BPA has reviewed each of the individual issues in BPA's Policy for Power Supply Role for FY 2007-2011, as well as the potential implications of these issues taken together. For some issues, there are no environmental effects resulting from implementation of the policy and NEPA is not implicated. For other issues, the policy is merely a continuation of the status quo, and NEPA is not triggered. For the remaining issues, a review of the Business Plan EIS clearly shows that the potential environmental impacts are adequately covered. Furthermore, the policy as a whole would not result in significantly different impacts from those described in the EIS. This section describes general environmental impacts associated with the policy issues that are part of the decision for BPA's Policy for Power Supply Role for FY 2007-2011, as well as the environmental implications of these policy issues, both individually and collectively.

INDIVIDUAL POLICY ISSUES

An analysis of each policy issue showed each issue either: (1) has no environmental effects; (2) is a continuation of the status quo, so NEPA is not triggered; or (3) may have environmental effects, but these effects are already covered in the BP EIS.

- **FY 2007-2011 Rights to Lowest-Cost Priority Firm (PF) Rate:** Under this policy issue, BPA will continue its policies concerning the PF rate for public agency customers that have already been established through the Power Subscription Strategy. Because this approach thus represents a continuation of the status quo, NEPA is not triggered by this policy decision.
- **Tiered Rates:** BPA is not making a decision regarding tiered rates as part of the near-term phase of Regional Dialogue, and is excluding such rates from its FY 2007 initial rate proposal. Instead, BPA is deferring a decision on tiered rates until additional policy discussions are held in the second phase of Regional Dialogue. Because this approach thus represents a continuation of the status quo, NEPA is not triggered.
- **Term of the Next Rate Period:** This policy issue involves merely a consideration of the length of the next rate period, which will be limited to three years. Because it is expected that there would be no environmental effects related to this policy issue, NEPA is not implicated for this policy decision.
- **Service to Public Agency Customers with Expiring Five-Year Purchase Commitments that Do Not Contain Lowest PF Rate Guarantee through FY 2011:** Under this policy issue, BPA will guarantee PF rates for FY 2007-2011 to public agency

customers whose contracts do not currently contain this rate, so long as, no later than June 30, 2005, these customers sign a new contract or a contract amendment that extends the terms of their existing contracts and commits them to purchase firm power in FY 2007-2011. Public agency customers that do not meet that deadline will be subject, beginning in FY 2007, to a TAC. For those customers who sign the contract amendment, BPA's actions will be a continuation of the current contract conditions for these customers, as well as a continuation of BPA's policies concerning the PF rate for public agency customers that have already been established through the Power Subscription Strategy. Because this approach thus represents a continuation of the status quo, NEPA is not triggered by this policy decision. For those customers who do not sign the contract amendment, BPA will implement a TAC, which is within the scope of the Business Plan EIS and ROD. Implementation of a TAC also is within the scope of two subsequent RODs tiered to these documents, the Power Subscription Strategy ROD and SN CRAC ROD. The decision on this policy issue for customers who do not sign the contract amendment thus is covered by previous NEPA documentation.

- **Service to New Public Agency Utilities:** Under this policy issue, BPA will provide new public agency utilities, that sign contracts by June 30, 2005, with the lowest cost-based rate for the FY 2007-2011 period; and will allow an additional six months for utilities less than 10 aMW—up to 30 aMW total—to establish and request service at the PF rate if they are able to take service by October 2006. New public utilities that miss the deadline will be subject to a TAC during the next rate period. For those utilities that meet the deadline, BPA's actions will be a continuation of BPA's policies that have already been established through the Power Subscription Strategy. Because this approach thus represents a continuation of the status quo, NEPA is not triggered by this policy decision. For those utilities that do not meet the deadline, BPA will implement a TAC, which is within the scope of the Business Plan EIS and ROD. Implementation of a TAC also is within the scope of two subsequent RODs tiered to these documents, the Power Subscription Strategy ROD and SN CRAC ROD. The decision on this policy issue for utilities that do not meet the deadline thus is covered by previous NEPA documentation.
- **Service to Annexed IOU Loads:** Under this policy issue, BPA will continue to treat IOU load that is annexed by June 30, 2005 in the same manner as it does today under existing contract terms and conditions with its customers. Load that is annexed after June 30, 2005 will be subject to a TAC during the next rate period. For load annexed by the June 30, 2005 deadline, BPA's actions will be a continuation of its treatment of IOU loads annexed by public agency customers established in BPA's WP-02 general rate schedule provisions and associated NEPA ROD. Because this approach thus represents a continuation of the status quo, NEPA is not triggered by this policy decision. For load that is not annexed by the June 30, 2005 deadline, BPA will implement a TAC, which is within the scope of the Business Plan EIS and ROD and the tiered Power Subscription Strategy ROD and SN CRAC ROD. The decision on this policy issue for utilities that do not meet the deadline thus is covered by previous NEPA documentation.
- **Product Availability:** Under this policy issue, first, BPA will allow any new public customer or customer whose contract expires in FY 2006 and who elects to execute a

new contract through September 30, 2011 to choose from among several core requirement products. These products were offered as part of BPA's Power Subscription Strategy, and the potential environmental impacts of these products were evaluated in the Subscription Strategy NEPA ROD. For the products no longer being offered, these products either are no longer feasible due to their required timeframes or are not being, and have never been, used. Because this approach thus represents a continuation of the status quo, NEPA is not triggered. Second, BPA will not permit customers with 10-year contracts to change the products they currently purchase. This approach thus also represents a continuation of the status quo, and NEPA is not triggered by this policy decision. Third, BPA will consider, on a case-by-case basis, requests from customers to add non-Federal resources to their existing contract if those additions will reduce BPA's FY 2007-2011 load-serving obligation without increasing costs or risks to other customers. The environmental impacts of various generation resources, regardless of whether they were Federal or non-Federal, were analyzed in the Business Plan EIS. In addition, intrinsic to the Market-Driven Alternative adopted by BPA from the Business Plan EIS, is the concept that BPA would share power system development costs and risks with full requirements customers under long-term contracts through its obligations to meet their loads, but would also offer more flexible arrangements under either long-term or short-term arrangements (Business Plan EIS, section 2.2.3). Thus, the policy decision made concerning non-Federal resources is within the scope of the Business Plan EIS and consistent with the Market-Driven Alternative adopted in the Business Plan ROD.

- **Service to Direct-Service Industries (DSIs):** Although BPA intends to provide benefits to qualified DSIs at a known capped cost, specific details have not been determined at this time. It is expected that these details will be worked out in a supplemental public process. Given that no decision is being made at this time on this policy issue, NEPA is not triggered. Furthermore, when a decision is made, it is expected that, whatever that decision is, it will be covered by the Business Plan EIS and ROD since this EIS included a module that considered service to DSIs ranging from "no new firm power sales contracts" to "100-percent firm service" (Business Plan EIS, section 2.3.1.3 and 2.6.3.3).
- **Service to New Large Single Loads (NLSL):** BPA's decision on this policy issue affirms its current NLSL policy with regard to DSIs transferring service to a local utility in 9.9 aMW increments, and adopts a renewables and on-site cogeneration exception based on a similar exception contained in BPA's 1981 utility power sales contracts. For DSIs that make transfers that do not fall within the above-stated exception, BPA's actions will be a continuation of current policy. Because this approach thus represents a continuation of the status quo, NEPA is not triggered by this policy decision. BPA's 1981 power sales contracts were analyzed in the Initial Northwest Power Act Power Sales Contracts EIS (DOE/EIS-0131, January 1992), which was incorporated by reference into the Business Plan EIS. In addition, the environmental impacts of renewables and cogeneration were evaluated in the Business Plan EIS (section 4.3.1) as well as in the Resource Programs EIS (DOE/EIS-0162, February 1993), which was incorporated by reference into the Business Plan EIS.

- **Service to Residential and Small-Farm Consumers of IOUs:** Under this policy issue, BPA is providing the region's six investor-owned utilities with contingent notice that BPA will provide financial benefits and not power benefits during FY 2007-2011 under the Subscription Settlement Agreements in the event a court sets aside the new contracts and amendments described in the Administrator's ROD signed May 25 2004, but leaves the underlying Subscription contracts in place. This approach to providing benefits is primarily an administrative modification that is not expected to result in reasonably foreseeable environmental effects due to the primarily financial nature of this action. In addition, the minimal to non-existent change in consumer or utility behavior that would likely occur would not result in reasonably foreseeable environmental effects. Furthermore, the provision of these benefits, as adjusted, is still clearly within the scope of and consistent with the Power Subscription Strategy adopted by BPA. The NEPA ROD for the Power Subscription Strategy documents that this policy is a direct application of BPA's Market-Driven approach adopted in the Business Plan ROD, and that the potential environmental impacts of the Power Subscription Strategy were adequately covered in the Business Plan EIS.
- **Conservation Resources:** BPA has adopted five general principles regarding conservation, and will await and rely upon the ongoing regional collaborative conservation planning process to inform any such decision that may be made in the future. First, BPA's adoption of its general conservation principles does not represent a significant deviation from BPA's ongoing commitment to sound business practices. Second, and perhaps more importantly, BPA is not yet making a decision regarding its role in regional conservation efforts as part of the near-term phase of Regional Dialogue. Thus, because no decision is being made and BPA's approach to conservation represents a continuation of the status quo, NEPA is not triggered for this policy decision.
- **Renewable Resources:** BPA will continue its supportive role of renewable resources in the region, albeit in a slightly altered form. Previous BPA policy on renewable resources had indicated that BPA's involvement could range from general support to actual acquisition of renewable resource generation. However, for at least the last few years, BPA has not been in a position to acquire renewable resources. Instead, BPA has focused primarily on reducing the barriers and costs interested customers face in developing and acquiring renewables. The policy decision on this issue will continue this general approach. This approach to renewable resources in the region is well within the scope of the Business Plan EIS and ROD, as well as the Resource Programs ROD, which were incorporated by reference into the Business Plan EIS and ROD. Thus, the decision on this policy issue is covered by previous NEPA documentation.
- **Controlling Costs and Consulting with BPA's Stakeholders:** This policy issue involves general administrative matters related to promotion of transparency under BPA's financial information disclosure policy, allowing for public input on agency costs, and demonstration of management of those costs. Because it is expected that there would be no environmental effects related to this policy issue, NEPA is not implicated for this policy decision.

- **Long-Term Policy Regarding Pacific Northwest Customer Load Obligations:** This policy issue involves limiting, to approximately the firm capability of the existing Federal system, BPA's long-term load service obligation at lowest-cost rates for Pacific Northwest firm requirements loads. Although a decision is being made at this time to limit BPA's long-term load service obligation, no decision is being made concerning how firm power load service in excess of the Federal system capability would be handled. How to handle this service will be addressed in the second phase of Regional Dialogue, thus analysis of this policy at this time is speculative. However, one possibility is that service in excess of the Federal system capability could be provided at a higher, tiered rate that reflects the incremental cost of power purchased to meet those additional loads through new long-term contracts and rates. Possible market responses from implementation of tiered rates were described in the Business Plan EIS, and potential environmental impacts were identified and analyzed. In addition, the Market-Driven Alternative in the Business Plan EIS included the adoption of tiered rates for firm requirements power in the long term (section 2.2.3), and a tiered rate design module is intrinsic to the alternative. This alternative also contemplated long-term contracts with requirements customers. Thus, this policy decision is within the scope of the Business Plan EIS and consistent with the Market-Driven Alternative adopted in the Business Plan ROD.

POLICY ISSUES COLLECTIVELY

It is expected that, as a whole, BPA's policy decisions on its Power Supply Role for FY 2007-2011 likely will have some influence on customers' decisions on whether or not to buy power from BPA to serve their firm loads. These BPA actions and the customer reactions are the market responses—resource development, resource operations, transmission system development and operations, and consumer behavior—that determine the potential environmental impacts. The following discussion provides a summary of the potential environmental impacts associated with the market responses and includes references to the appropriate sections of the Business Plan EIS and the Business Plan ROD.

- **Resource Development:** Resource development has a potentially greater impact on the environment than the other market responses. However, whether customers choose BPA or other regional providers to serve their loads has a minimal effect on the potential environmental impacts from resource development. The Business Plan EIS showed that the difference between BPA serving loads and other regional providers serving loads is relatively minor. Although BPA's share of regional load varied widely across the alternatives, the differences in total environmental impacts among alternatives were small (Business Plan EIS, Figure 4.4.5).

The more important factor influencing potential environmental impacts is whether or not the region will be in an energy resource surplus or deficit situation. Based on BPA's most recent Pacific Northwest Loads and Resources Study (the White Book), BPA is expected to be surplus through Operating Year (OY) 2006, near load/resource balance from OY 2007 through OY 2010, and deficit in 2011 under critical water. Under the current Pacific Northwest regional resource stack, the region is expected to have firm energy surpluses through OY 2010. The region will be deficit starting in OY 2011.

There is some variability in the surplus/deficit projections under differing water conditions. There is also potential variability for regional projections due to the level of independent power producers (IPP) generation delivered to the region. The above projections assumed the IPP generation was contracted or sold to regional entities to serve Pacific Northwest loads. However, the Pacific Northwest may have to compete with other western markets to secure this supply. Depending upon the amount of IPP generation assumed to be delivered in the Pacific Northwest, the region could be deficit as early as OY 2005.

If the region is deficit, all resources in the region will run and additional resources will be needed. It is anticipated that some of this need for additional resources will be met through better water conditions than critical water. In addition, BPA will promote and facilitate the development of conservation and renewable resources in the region. The region may also rely on imports from existing extraregional power resources or on the development of new resources. In either case, there is likely to be an increase in air emissions if the new resources are combined-cycle combustion turbines (CTs). However, if cleaner, more fuel-efficient displace existing thermal generation, the overall air quality impacts may be lessened (Business Plan EIS, section 4.4.1.4). The generic environmental impacts of alternative generation and conservation resources were presented in section 4.3.1 of the Business Plan EIS.

In the less likely event the region were in a surplus situation, new thermal resources would not be needed (except as replacement generation). The closer the region is to load/resource balance, however, the greater the likelihood new resources will be needed. As discussed above, these new resources would most likely be CTs; renewables, such as wind; and conservation.

- **Resource Operation:** Hydrosystem operations will not be affected by BPA's Power Supply decision. BPA serves its contractual obligations and markets power and services with available resources consistent with the operating constraints that apply to the hydrosystem (Business Plan EIS, section 1.5.6; Business Plan ROD, page 4).

In a deficit situation, all existing resources in the region will run and energy may be imported from existing energy resources outside the region. Temporary small resources may also operate, causing an increase in air emissions. However, new resources, particularly cleaner, more fuel-efficient CTs and wind farms, may displace some of the existing thermal generation, lessening the overall air quality impacts (Business Plan EIS, section 4.4.1.4).

If the region is surplus, surplus hydropower could be used to displace existing thermal generation, resulting in fewer air emissions. If most existing regional resources run, no substantial changes in environmental impacts would be expected.

- **Transmission System Development and Operations:** BPA's decision on a Power Supply role for FY 2007-2011 will have little or no effect on transmission development and operation. Reliability criteria and planning would still set the direction for the

regional transmission system. The generic environmental impacts of transmission development and operation were described in section 4.3.2 of the Business Plan EIS. The analysis of transmission system development and operation across the alternatives (which represent a broad range of loads placed on BPA) shows overall transmission development in the region varying by less than six percent (Business Plan EIS, section 4.4.3.6).

- **Consumer Behavior:** BPA's business decisions affecting its wholesale customers ultimately affect end-use consumers through the cost of electric power or other conditions of electric utility service. Environmental impacts may arise from the actions consumers take in response to these costs or conditions. If consumers perceived that power supply role changes could cause changes in electricity rates, they may make changes in their electric energy consumption—improve energy efficiency, switch fuels, change time of use, or curtail use (Business Plan EIS, section 4.1.2.5). Conservation measures, in and of themselves, have few environmental impacts (Business Plan EIS, section 4.3.1). The success of any effort to continue to ensure that cost-effective conservation gets developed would reduce the region's reliance on or need for thermal resources. As a result, there would be fewer impacts to air, land, and water.

Taken as whole, BPA's Regional Dialogue policy does not deviate significantly from BPA's already adopted policies for its power supply role in the region. Furthermore, this policy does not present potential environmental impacts that are substantially different from those already described and analyzed in previous NEPA documents prepared by BPA. In fact, this Regional Dialogue policy represents a direct application of BPA's earlier decision to use a Market-Driven approach, consistent with its statutory responsibilities, for participation in the electric power market in the region. BPA's decision on this Regional Dialogue policy, taken as a whole, is therefore consistent with BPA's Business Plan (August 1995), Business Plan EIS, and the Business Plan ROD.

PUBLIC PROCESS

Public process is integral to BPA decisionmaking and public involvement during the development of the agency's Regional Dialogue Policy was extensive. This public outreach has informed the public of BPA's proposals, provided opportunities for the public to comment on the proposals, and helped shape how the proposals will be implemented. BPA's Policy for Power Supply Role for FY 2007-2011 incorporates information received from customers, tribes, constituents, industries, and the general public. Throughout the Regional Dialogue process, BPA has been clear about the agency's intention to use the Business Plan EIS to support its decision.

SUMMARY OF THE PUBLIC PROCESS

The Regional Dialogue process began in April 2002 when a group of BPA's Pacific Northwest electric utility customers submitted a "joint customer proposal" to BPA. This proposal focused on settling outstanding litigation on the Residential Exchange Program Settlement Agreement signed in 2000, as well as on determining how to market Federal power and distribute the costs and benefits of the FCRPS for 20 years.

In June 2002, BPA and the Council jointly initiated a public process regarding BPA's marketing of Federal power post-2006. In September 2002, several jointly sponsored public meetings were held throughout the region for interested parties to discuss their proposals and provide new ideas and suggestions. BPA and the Council accepted comments and proposals from all interested parties. This stage of the Regional Dialogue ended when the Council submitted final recommendations on "The Future Role of Bonneville" to BPA in December 2002.

In February 2003, faced with a continuing financial crisis, BPA announced that it would proceed with a rate-setting process for the SN CRAC. Consequently, BPA decided that the Regional Dialogue discussions should take a slower, more deliberate pace, focusing only on a few key issues, such as the level of benefits for the residential and small-farm consumers of the region's IOUs, until the rate case concluded. BPA initiated a detailed examination of the events that began in 2000 and led to significant rate increases and the deterioration of BPA's financial condition. On April 18, 2003, BPA released a Report to the Region that included lessons the agency learned, with the intention of translating those lessons into future actions.

In a June 5, 2003, letter, the governors of the four Pacific Northwest states encouraged BPA and the Council to jointly restart the Regional Dialogue. In response, BPA and the Council hosted a series of informal meetings with customers and interested parties throughout the region in the fall of 2003. Shortly thereafter, the Council released a set of principles and an issue paper entitled "Proposed Council Principles for the Future Role of the Bonneville Power Administration in Power Supply" for public comment. Following the close of comment in December 2003, the Council held several workgroup meetings aimed at gathering input from customers and others to help guide its next round of recommendations on the future role of BPA in power supply. After conclusion of the workgroup meetings, the Council released in April 2004 its draft recommendations on "The Future Role of the Bonneville Power Administration in Power Supply" and took public comment. Those recommendations were finalized and sent to BPA in May 2004.

Meanwhile, on February 27, 2004, BPA sent a letter to the region updating BPA's plans for resolving Regional Dialogue issues. In the letter, BPA identified issues that are a priority to resolve for the FY 2007-2011 period. This first phase of the Regional Dialogue focuses primarily on these FY 2007-2011 issues. BPA is committed to resolving the key remaining issues in the follow-on second phase.

In 2004, BPA publicly released information about its long-term strategic direction as a springboard for discussions with customers and other stakeholders. BPA's strategic direction calls on the agency to take a leadership role in high reliability, low rates consistent with sound business principles, responsible environmental stewardship, and clear accountability to the region. The issues addressed in the strategic direction serve as the foundation for the Regional Dialogue. Account executives held informal meetings and conversations with customers and discussed and recorded their comments. Some customers, as well as constituents, also submitted written comments.

In the process of developing this policy, BPA analyzed and considered 388 comments related to Regional Dialogue issues. Many who commented said that allocation of the system is a high

priority issue and that the timing is now. They cautioned that discussions regarding BPA's long-term obligation to provide service at lowest cost-based rates for Pacific Northwest firm requirements loads and related decisions would be difficult. Commenters' objections to tiered rates were much more frequent than support. Commenters also said that any allocation discussion should be completed before entering into any ratemaking process to tier power rates. In July 2004, BPA published its revised Strategic Direction.

On July 7, 2004, BPA published its policy proposal and posted it on the agency's Regional Dialogue website. The policy proposal was published in the Federal Register on July 20, 2004. The public was invited to comment and to participate in public meetings on the Regional Dialogue policy proposal. Between August 17 and September 15, 2004, BPA held a series of six public meetings in Seattle, Washington; Eugene, Oregon; Spokane, Washington; Boise, Idaho; Portland, Oregon; and Kalispell, Montana. In those meetings, the agency presented its draft policy proposal and took comment. By the end of the public comment period on September 22, 2004, BPA received over 130 written comments. On September 29, 2004, those public comments, along with summaries from the six public meetings, were posted to BPA's Regional Dialogue website.

In a letter dated August 31, 2004, BPA invited interested parties to participate in a conservation work group. The purpose of the work group is to develop a proposed conservation program for the post-2006 period as indicated in the Regional Dialogue policy proposal. The letter noted the deadline for expressing interest was September 13, 2004 and that information would be available on the Post-2006 Conservation Program page on the BPA Energy Efficiency (EE) website. The first meeting of the work group was held on October 7, 2004.

On October 7, 2004, BPA sent a letter to the region summarizing public comments received on the Regional Dialogue Policy proposal and summarizing the next steps in the decisionmaking process. The letter also noted there might be follow-up discussions on some Regional Dialogue issues. October 21, 2004, BPA sent out another letter that identified four issues on which the agency was open to having further discussions. The four issues were Service to DSIs, Future Service to Customers with Five-Year Purchase Commitment that Do Not Contain the Lowest PF Rate Guarantee, Product Availability, and New Public Utilities. Additional meetings were held throughout the region with customers, customer groups, constituents, tribes and other interested stakeholders. The discussions were concluded on November 12, 2004 and summaries were posted to BPA's Regional Dialogue website.

The October 21, 2004 letter also indicated that a large number of comments were received on Conservation and Renewables and that BPA would continue to work with interested parties on developing a post-2006 conservation program. Subsequently, a Renewables Focus Group was formed to provide feedback on BPA's proposals for the FY 2007-11 renewables program. The group will continue to work collaboratively to develop suggestions for renewables programs and products.

COMPILATION OF COMMENTS

BPA received over 170 separate written comment letters by e-mail, fax, and postal service delivery and many pages of comments from the six regional public meetings. The comments

reflect the views of customers, tribes, constituent groups, industry, individuals, and others. An issue-by-issue analysis produced about 1,300 separate comments that were organized by subject to reflect the order of the policy itself. Slightly over 30 individual comments were submitted on matters—such as fish and wildlife, participation in Grid West, transmission adequacy, and government-to-government responsibilities—that, although very important, are outside the scope of the Regional Dialogue. These comments were forwarded to the responsible organization for review and consideration.

SUMMARY OF KEY ISSUES AND CONCERNS

Most comments addressed conservation resources, post-2006 service to the DSIs, renewable resources, limiting BPA's long-term load service obligation at lowest cost-based rates for Pacific Northwest requirements loads, controlling costs and consulting with BPA stakeholders, and service to publics with expiring five-year purchase commitments that do not contain the lowest-PF rate guarantee. The Administrator's Record of Decision includes an issue-by-issue review and evaluation of the comments.

ADDITIONAL OPPORTUNITIES

The public has been given public involvement opportunities not only during the development of the Regional Dialogue policy for BPA's power supply role for FY 2007-2011, but also during the period when BPA's basic business direction was being defined. The Business Plan EIS was one such opportunity. Among other things, the Business Plan EIS identified and evaluated the products and services BPA will market, a policy direction for BPA's sale of power products to its customers, and contract terms and rates for power products and services (Business Plan EIS, section 1.4.2). The Business Plan Draft EIS was distributed for public review and comment in June 1994, and a public meeting was held in Portland, Oregon on September 7, 1994, to receive comments on the Draft EIS. BPA received 30 letters from the public that raised comments concerning the Business Plan Draft EIS. Based on comments received on the Draft EIS, corresponding changes to the Draft EIS, and other considerations, BPA decided to prepare a Supplemental Draft EIS before proceeding to a Final EIS. This Supplemental Draft EIS was distributed in March 1995 for a 45-day public review and comment period, and two public meetings were held (one in Spokane, Washington on April 4, 1995, and one in Seattle, Washington on April 5, 1995). A total of 13 letters were received from the public on the Supplemental Draft EIS. Public comments received on both the Draft EIS and Supplemental Draft EIS were considered and addressed in the Final EIS.

BPA's development of its Power Subscription Strategy also provided an opportunity for public input concerning BPA's potential risk mitigation tools. Among other things, this Strategy specifically addressed the equitable distribution of electric power generated by the FCRPS. In early 1997, BPA and the Pacific Northwest Utilities Conference Committee (PNUCC) invited 2800 interested parties throughout the Pacific Northwest to help further define Subscription. The collaborative effort to design a Subscription process began with a March 1997 public kickoff meeting, where a BPA/customer design team presented a proposed work plan, including a description of NEPA coverage for Subscription. In addition, meetings of the Subscription Work Group, which were open to the public, were normally held twice a month from March 1997, through September 1998. An average of 40-45 participants—representing customers, customer

associations, tribe, state governments, public interest groups, and BPA—attended these meetings.

In addition to the March 1997 kick-off meeting for the Power Subscription Strategy, two other regional meetings in December 1997 and June 1998 were held specifically to ensure the public understood and had an opportunity to participate in the Subscription process. BPA also conducted a series of meetings around the region. These meetings, which were part of the public involvement process known as “Issues ’98,” covered many regional subjects. Issues related to Subscription were key topics in the discussions at those meetings. The public comment period for “Issues ’98” closed June 26, 1998.

In September 1998, BPA released its Power Subscription Strategy Proposal, which laid out BPA’s strategy for retaining the benefits of the FCRPS for the Pacific Northwest after 2001. This proposal incorporated information received from customers, tribes, fish and wildlife interest groups, industries and other constituents. The public was invited to participate in two comment meetings (one in Spokane, Washington, on October 8, 1998, and one in Portland, Oregon, on October 14, 1998). The comment period for the proposal closed October 23, 1998, although all comments received after that date were considered. BPA received over 200 separate written comments on the proposal from numerous tribes, states, utilities, industries, customers, public interest groups, and citizens. These comments were considered and addressed in the Power Subscription Strategy Administrative ROD, which was issued on December 21, 1998. BPA also issued a NEPA ROD tiered to the Business Plan ROD for its Power Subscription Strategy on this date; this NEPA ROD was distributed to all interested and affected persons and agencies in the region, and was made available on BPA’s website.

RESPONSES TO NEPA COMMENTS RECEIVED ON THIS PROPOSAL

BPA received only two comment letters directly addressing environmental analysis for the Regional Dialogue—one from the NW Energy Coalition (NVEC) and one from the Natural Resources Defense Council (NRDC).

In RD 04-0110, NVEC acknowledges that the Business Plan EIS may be adequate to cover the Regional Dialogue proposal but urges a more robust analysis than the analysis included in the proposal. Specifically, NVEC has two main issues. The first is concern about the analysis of impacts if customers, who are responsible for load growth, do not acquire all cost-effective energy efficiency. The second is a concern that, if new resource development is the responsibility of the region’s utilities, there be adequate planning to ensure BPA “is not forced to over use the hydrosystem to the detriment of salmon obligations.” In RD 04-0129, the NRDC supports the Coalition comments regarding an analysis of environmental impacts.

As a point of clarification, BPA would first like to note that the discussion in the proposal was never intended to be the environmental analysis to support the Regional Dialogue decision, and should not be construed in that manner. Rather, it was a disclosure of BPA’s intent to review the policy under NEPA and the preliminary results of our initial review of the Business Plan EIS to see if this EIS could support an agency decision concerning Regional Dialogue. This tiered

ROD provides the documentation of the NEPA analysis for BPA's decision on its Power Supply Role for FY 2007–2011.

ANALYSIS OF IMPACTS IF CUSTOMERS DO NOT ACQUIRE ALL COST-EFFECTIVE CONSERVATION

The analysis in the Business Plan EIS focuses on relationships between BPA and the market, rather than providing a numerical or quantitative analysis. In this relationship analysis, BPA's actions and the market reactions can be sorted into four market responses: resource development, resource operation, transmission development and operation, and consumer behavior. These market responses determine the potential environmental impacts of BPA's actions, as well as the agency's ability to balance costs and revenues.

The Business Plan EIS evaluates the impacts of BPA's actions on both BPA and on the region as a whole (Figure 1.7-1). The EIS assumed that the region will continue to need electric energy and BPA and others would supply that energy. While the products and services the various suppliers provide are often similar, how suppliers develop those products and services will vary. Consequently, the environmental impacts will also vary as products and services are developed in different ways or to different degrees.

Figure 4.1-1 illustrates the interrelationships among BPA, BPA customers, end use consumers, and other suppliers of conservation and generation resources. Differences in environmental impacts will arise from differences in the types of resources acquired by BPA compared to those acquired by other suppliers. If customers do not acquire all cost-effective conservation, they would meet their load growth with generating resources, likely CTs or renewables, such as wind. The potential environmental impacts of the various generation resources that are likely to be used to serve the Pacific Northwest are summarized in section 4.3.1 of the EIS.

The Administrator has reviewed the Business Plan Final EIS for this Regional Dialogue ROD and has determined that the relationship analysis is still valid. In addition, as discussed above, the potential environmental impacts if customers do not acquire all cost-effective energy efficiency are included in the analysis in the EIS.

ASSURING THE HYDROSYSTEM IS NOT OVERUSED TO THE DETRIMENT OF SALMON OBLIGATIONS

BPA serves its contractual obligations and markets power and services with available resources consistent with the operating constraints that apply to the hydrosystem. The Business Plan EIS (section 1.5.6) and ROD (page 4) explained that the System Operation Review (SOR) would define the power available to BPA from its hydro resources. The SOR EIS (DOE/EIS-0170, February 1995) assessed the potential impacts of adopting different System Operation Strategies (SOS) for the FCRPS. The preferred alternative adopted operations recommended in the 1995 Biological Opinions issued by the United States Fish and Wildlife Service and the National Oceanic and Atmospheric Administration, National Marine Fisheries Service. In addition to documenting a strategy that is comprised of specific operating requirements, the SOR ROD embraced the concept of adaptive management. This adaptive management approach allows operational flexibility in responding to changing conditions and new information. The SOR EIS has been used to support successor Biological Opinions.

PUBLIC AVAILABILITY OF THIS ROD

This ROD, which satisfies BPA's requirements under NEPA, will be distributed to interested and affected persons and agencies. The ROD will also be posted on BPA's website for the Regional Dialogue, which is www.bpa.gov/power/regionaldialogue. Copies of the Administrator's ROD for BPA's Policy for Power Supply Role for FY 2007-2011, the Business Plan, Business Plan EIS, the Business Plan ROD, the relevant subsequent tiered RODs, and additional copies of this NEPA ROD are all available from BPA's Public Information Center, P.O. Box 12999, Portland, Oregon 97212. Copies of these documents may also be obtained by using BPA's nationwide toll-free document request line, 1-800-622-4520.

CONCLUSION

I have reviewed the environmental evaluation for each of the policy issues. For some of the issues, NEPA is not implicated because there are no environmental effects. For other issues, NEPA is not triggered because the policy is a continuation of the status quo. For the remaining issues, the environmental effects have been addressed in the Business Plan EIS. I have also reviewed the Business Plan EIS and ROD. Implementation of this Regional Dialogue Policy would not be expected to result in significantly different environmental impacts from those examined for the Market-Driven alternative analyzed in the Business Plan EIS and adopted in the Business Plan ROD. Therefore, I have determined it is appropriate to tier this decision to implement this policy for BPA's Power Supply Role for FY 2007-2011 to the Business Plan ROD, as provided for in the Business Plan EIS and Business Plan ROD.

Issued in Portland, Oregon.

/s/Stephen J. Wright 2/04/05

Stephen J. Wright
Administrator and
Chief Executive Officer

Date