



April 21, 2004

Mr. Mark Walker
Director of Public Affairs
Northwest Power Planning Council
851 S.W. Sixth Avenue, Suite 1100
Portland, OR 97204-1348

Dear Mr. Walker:

I am writing to comment on Document 2004-02, Council Recommendations for the Future Role of the Bonneville Power Administration in Power Supply.

By way of introduction, I was employed by the Bonneville Power Administration (BPA) for over 21 years, retiring at the end of 2002. For over 15 of those years, I was involved in renewable energy development — mainly geothermal, wind, and solar — and participated in most of BPA's energy resource acquisitions after 1990. From about 1997 until I retired, I managed BPA's renewable energy program. I am currently a consultant on renewable energy acquisition, working with public utilities that want to buy wind power.

The following are strictly my own views. I am submitting them independently and without consulting any of the entities I am working with.

My comments address two of the Council's recommendations:

1. BPA' role in resource acquisition, particularly the notion that bilateral contracts with customers should be substituted for power purchases by BPA
2. BPA's role in renewable resource development

Bilateral contracts may sound like a good way to keep BPA from taking on more costs and risks, but they're impractical to implement.

The Council advocates requiring utilities to enter bilateral contracts with BPA for resource acquisition. The contracts would make the utility responsible for the costs and risks of buying new resources, instead of BPA. It is unclear whether the Council thinks BPA should add these resources to the federal system, or simply act as a purchasing agent for the utility, presumably the later.

This notion of bilateral contracts has been kicked around for awhile. BPA espoused it almost a decade ago in its Business Plan. People seem to have this idea that forcing BPA customers who have load growth to shoulder all the burdens of resource acquisition will somehow insulate customers that don't from the associated costs and risks. The concept

never caught on, and for good reason. It is one of those ideas that sounds good, but doesn't really make sense when you think about it.

The two principles underlying the Council's recommendation appear to be:

1. Utilities should fend for themselves when it comes to dealing with load growth.
2. BPA should act as a purchasing agent for its customers, but not buy any power itself.

Let's examine them one at a time and try to ignore the fact that BPA is required by law to meet the loads of public bodies and cooperatives.

Public utilities should have to fend for themselves when it comes to dealing with load growth.

This is a solution that probably works for investor-owned utilities (IOUs) and large publicly-owned utilities, but doesn't work at all for small public utilities. As I mentioned in my introduction, I recently became involved in helping small public utilities purchase wind power. In the process, I encountered some of the obstacles facing small utilities that want to buy their own resources.

For one thing, economies of scale don't exist for small purchasers. That means they either have to pay a lot more for power or somehow become part of an aggregated purchase. A small utility can't afford to hire someone just to acquire and oversee a power project. Nor do they have the time and personnel to stay abreast of the maze of transmission regulations and policies, which is a specialist position at large utilities. Arranging for transmission services, or even finding out if transmission capacity is available, can be daunting and confusing for someone who doesn't do it for a living. A single consultant, contractor, or agent might be able to do the job for several small utilities almost as cheaply as it could for one, and maybe that's where the "BPA as purchasing agent" concept comes from.

But being a small purchaser is just one of their problems. Because they have little or no generation of their own, small utilities typically have to purchase services from larger utilities in order to maintain an adequate level of reliability. Otherwise, BPA would have to back up their purchases with federal system resources (which shifts costs and risks to BPA) or the cost of the new resource gets even higher due to the cost of the needed services (purchased from BPA or another utility). Renewables magnify the problem, because they typically are purchased under long term contracts. Regulatory and other uncertainties (including BPA's unilateral rights to change certain contract provisions) can be unnerving when one is considering whether to sign a 20-year power purchase agreement.

Independent power producers (IPPs) have questioned the ability of small public utilities to guarantee that payments for power will be made over the term of a long contract. To facilitate some of these purchases, BPA will almost certainly be asked to provide credit support. When power purchase contracts expire or if IPPs default,

customers will want assurances that they will be able to put load back on BPA at the lowest rate to which they are currently entitled.

When one starts to add up all the ways BPA will have to support them, one can't help but wonder how BPA's situation is improved by encouraging customers to buy their own resources. By the time the public utility signs the contract with the IPP, the power plant may as well belong to BPA.

BPA should act as a purchasing agent for its customers, but not buy any power for itself.

Given all the diseconomies of (small) scale faced by most public utilities, I suppose it's natural to think BPA could act as their purchasing agent. To achieve anything remotely approaching a reasonable power price, some entity will have to aggregate small utility load and provide resource acquisition services at low cost. Perhaps the Council envisions BPA providing this service, but not purchasing any power itself. BPA does, after all, have staff who are experienced in most aspects of power permitting, contracting, purchasing, and transmission.

Unfortunately, BPA is so encumbered by regulations, bureaucracy, and conflicting agendas, that it is hard to see why any customer would want BPA to acquire resources on its behalf. Working through BPA would likely add time and expense to the process. With all the other demands on their time and attention, it may be difficult for BPA staff to make a customer's project their top priority on a consistent basis.

And I know from bitter experience that BPA involvement creates opportunities for project opponents and parties with agendas unrelated to the power project to obstruct or delay it.

BPA should continue to augment the federal system and meld the cost into its existing rate structure.

The above considerations and others lead me to conclude that BPA must continue to buy resources — preferably renewables — to augment the federal system. The costs of new resources should be melded with the costs of existing resources. I don't believe a tiered rate that penalizes load growth is consistent with the way other large utilities handle the cost of resource acquisitions, which is to meld them into their existing rate base. Why should BPA be made to do things differently?

Instead of giving up on resource acquisition, BPA needs to get better at it. In the past, BPA usually assigned resource acquisition duties to lower graded staff and committees assembled for the occasion. Decision making was reserved for upper management who have neither the time nor the inclination to involve themselves in details. Instead, BPA should hire or develop a highly graded, professional staff who have authority commensurate with their responsibilities (this is not usually the case), and are held accountable for results.

Finally, concerns have been expressed about BPA having too big an impact on the Northwest power market. To the extent BPA's impact reflects the collective bargaining

power of its public power customers, I think BPA's ability to negotiate from strength benefits the region. Who is more likely to negotiate a fair deal with some corporate giant power marketer, BPA (who can make a large purchase and has large staff resources to assist) or the already overstretched staff at my local PUD?

The region needs a sustained, predictable commitment to renewable resource development.

I believe sustained, orderly development of renewable generation will have a long term benefit for the region, and that the Council does not need to reinvent the wheel when it comes to BPA's role. But the Council does need to make sure that BPA at least honors the minimal commitment it made during the Comprehensive Review.

During the Comprehensive Review, BPA's Administrator agreed to spend a net \$15 million per year on renewable resource acquisition and R&D. The agreement was ratified by the Cost Review, and the policies for implementing it have been worked out in detail over the years and blessed by BPA's upper management.

I won't go into the particulars of the \$15 million Renewables Budget, because they are available in documents obtainable from BPA. But I would like to note the following:

- In not a single year has it ever been fully spent; in most years, not even close. Instead of being carried forward, unspent budget has been returned to BPA's general fund.
- Revenue from green power marketing was supposed to be credited to the budget. In general, this has not occurred.
- Activities that were supposed to be funded from the budget, like wind and solar monitoring and the purchase of energy from a geothermal project, have either already been cut back or face termination.

Fifteen million dollars per year is hardly an onerous obligation for an agency that is required by law to promote renewable resource development in the region. A fixed Renewables Budget would be a workable mechanism for maintaining at least a minimum level of sustained renewable resource development in the Pacific Northwest, especially for emerging technologies with potential for being cost-effective. Because it is a spending ceiling, I believe BPA's customers are fairly comfortable that costs will not get out of hand.

However BPA's Power Business Line must be made to implement it honestly and in the spirit of the Regional Act. Unspent budget should accumulate, and green power revenues should be strictly accounted for and credited to the budget. Fiscal crisis seems to be a way of life at BPA, so it should not be an acceptable excuse for slashing the Renewables Budget. A Renewables Budget that is never spent is just window dressing.

Finally, BPA's Transmission Business Line should establish a budget for building infrastructure to renewable resource areas. Otherwise, renewable energy projects will continue to crowd along existing transmission corridors, even when better resources exist elsewhere and generation in other locations would benefit the transmission system. Without forward-looking plans to build infrastructure, some of the region's best renewable energy — like the wind resources in Montana — may never be tapped.

Thank you for the opportunity to comment.

Very truly yours,

George D. Darr