

April 23, 2004

**NW Energy Coalition's**  
Comments on the  
**NW Power and Conservation Council's**  
**Recommendations for the Future Role of BPA in Power Supply**  
**Document 2004-02**

## **INTRODUCTION**

The NW Energy Coalition (NVEC) is pleased to offer the Council these comments on its April 9, 2004 draft recommendations for the Future Role of BPA. NVEC strongly supports the Council's examination of Bonneville's future role, and most, though not all, of its recommendations.

The Council recommends several important changes in current policy direction and new initiatives that we believe deserve a considered and in-depth response. At this time, the region does not have much detail regarding how these new initiatives might look because of their preliminary and tentative nature. That lack of specificity makes it difficult for us to know exactly what they all mean, and our comments should be considered in that context.

NVEC supports many of the directions and initiatives described in the paper, and we look forward to working with Bonneville and the Council to flesh them out and eventually implement them. However, we also believe the Council has made some serious errors in analysis. Our comments here follow the format of the draft Recommendations.

## **COUNCIL'S RECOMMENDATIONS**

### **I. Fundamentally change how BPA carries out its role in power supply.**

Since about 1996 the utility environment has been shocked by deregulation, unheard of price increases, drought and a faltering economy. BPA's attempt to cope with these unforeseen events has been seen by many as chaotic, resulting in unprecedented distrust and criticism. The heart of the Council's advice is that, these problems have their roots in BPA's traditional role, so "a fundamental change is required in [BPA's] traditional power supply business practices."

The current draft of this paper provides no analysis that ties the problems the region had or has, to BPA's role in resource development. One must go back to a previous draft to find the Council's reasons. In that paper, the Council says,

These problems are not the fault of the Bonneville Power Administration. Rather, they are the consequence of a mismatch between how Bonneville is called upon to operate

and the realities of the evolving electricity system. (Issue paper 2002-19, issued in Dec. 2002p.1)

The paper then listed the regional problems that the Council believes merit a fundamental change in BPA's role:

1. Periodic lack of clarity regarding who would serve loads; leading to,
2. Exposure of BPA to large market risks resulting from the uncertainty over how much load it must serve.

In addition, the Council cites:

3. Lack of correct price signals to parties in the region regarding the costs of new supply;
4. Perception of inequality in the distribution of the benefits of the system; and finally,
5. Fear that BPA might not be able to continue to absorb the risks of uncertain loads, its highly variable hydro system, and a potentially volatile wholesale market.

The Council's recommended solution to these problems is that Bonneville should transition toward a new and more limited role. For much of the loads served by Bonneville, its customers would take on the responsibility for determining how new loads would be served, rather than BPA.

Unfortunately, neither the Council's current paper nor the earlier draft we cited actually analyzes whether this dramatic solution would solve these problems at all, much less be the best solution one could conceive of. At the very least, the Council should discuss whether some much less disruptive adjustments would do the job better. In addition, the problems this solution is attempting to solve seem to be focused solely on the recent past. We would suggest that there are additional problems--perhaps even more critical--that need to be considered in designing a new structure for Bonneville. These include, most importantly, ensuring that the region acquires the cleanest, least costly and least risky set of new resources to serve its future energy needs. NWEC urges the Council to use this occasion to design a role for Bonneville that attempts to look to the future.

The paper contains no discussion of how its recommended solution--handing over the responsibility for serving new loads to the utilities--will solve the problems the Council identified, better than the obvious alternative of keeping BPA the responsible party. NWEC believes that many of the problems listed do *not* require a fundamental change in Bonneville's role. Given the enormity of the change being recommended, the Council should more carefully weigh whether its solution would solve the problems that motivated this whole debate. *And even more important, in our opinion, the Council should ask whether the utilities alone will do a better job than a partnership between Bonneville and the region's utilities in ensuring implementation of the Council's new Power Plan.*

We must remember that BPA was not responsible for deregulation or the drought, and all the region's utilities, not just Bonneville, saw their rates rise radically. Given those facts, NWECC suggests that a much less radical solution to the region's problems might work better, and should at least be analyzed.

First, the uncertainty about what loads BPA will be responsible for (problems Nos. 1 and 2) can be solved with longer notice requirements before existing contracts expire or before customers place, or remove, significant amounts of load, from BPA. The lack of correct price signals (problem No. 3) to BPA's customers is important only if *they* are making new resource decisions. If BPA continues to meet load growth, BPA will be making those decisions and already does receive the correct price signal.

Perceived inequality in the distribution of regional benefits (problem No. 4) refers to a deal on the residential exchange. There is no reason such a deal depends on a new BPA role in acquiring resources.

BPA's hydro risk and exposure to market volatility (problem No.5) is lessened once it has more notice before its loads change significantly. An enforceable adequacy standard will reduce market volatility--and such a standard is certainly easier to establish under the status quo than it will be if each utility is on its own. Finally, BPA's hydro risk is not a new problem. It can be dealt with via higher financial reserves, more slice customers, or a CRAC. (Incidentally, the Council's recommended solution for hydro risk doesn't *solve* this problem, it only *shifts* it to BPA's customers, as would higher reserves or a rate adjustment mechanism.)

Finally, NWECC urges the Council to test this " improved status quo" model--longer notice requirements, adequacy standard, higher reserves (or more slice, or a CRAC)-- against the problem the Council didn't discuss, but should have: Which model will more likely result in the Council's new Power Plan being implemented? We believe that this question has been put to a small test already. After the Comprehensive Review was signed onto by most of the region's public utilities, BPA trusted them to meet the renewables, conservation and low-income services targets that they had endorsed on their own. BPA then cut its own budget accordingly. Unfortunately, many utilities completely dropped the ball, contributing, in our opinion, to the crisis of 2000-01.

Therefore, without targets written into new utility contracts, and without the willingness of BPA to enforce their compliance, we do not believe all utilities will fully acquire the conservation and make all the other investments detailed in the Council's new Power Plan. Thus we see some real downside risk to the Council's radical solution and little upside benefit, compared to improvements in current practice that might be used instead. Comparing a more modest set of changes to that offered by the Council would be useful for the Council to analyze, for it would in all likelihood show that there is no real need for a fundamental change in BPA's role.

## **II. Define fundamental policy direction through rulemaking.**

NWEC supports this recommendation.

## **III. Offer long-term contracts as soon as possible.**

Ultimately, a long term contract is needed to give BPA and its customers the assurance that the new relationship will last long enough to justify long term resource decisions. The stability benefits from long-term contracts and the opportunity to do long term resource planning are extremely high, so NWEC favors long-term contracts. However, given this industry's recent history, there is no reason to think that things have stabilized yet. Thus, while NWEC is sympathetic to the desire for long term certainty, we believe that it would not be prudent to act precipitously to put a long-term, but untried solution into a contract too quickly. BPA's role could not then be easily changed for decades. BPA should instead put its new policies into effect via a ratecase after a rulemaking, so the region could experience any unintended consequences without putting them into concrete. Then, if things were working out well, BPA could offer new contracts in time to be implemented when the existing contracts expire.

### **A. Cost control and Business Practices**

We do not subscribe to the belief that BPA is "out of control." In fact, we think there has been too much attention given to cost cutting without balancing the cost to the region of the loss of services that accompany those cuts, much less discussing currently unfunded needs. The major Bonneville decisions that some parties, with 20-20 hindsight are now attacking, were almost universally accepted by the region's stakeholders at the time without too much disagreement. Most factors that caused BPA's rates to go up drastically in 2001 were out of the agency's immediate control, and most other NW utilities met the same fate. The Regional Act provides Bonneville wide discretion that various parties, including ourselves, have sometimes wished to corral. However, we do not think it wise to amend the Act and expose the region to the considerable legislative risk.

The Council recommends that the option of addressing costs in BPA rate cases should be considered, citing that common practice for other regulated utilities. That might make sense if BPA was overseen by an independent regulator and had shareholders who could absorb disallowed costs, but it is not the case. The Administrator has final say, and customers pay all costs. In addition, BPA's ratecases are dysfunctional enough, as it is. Thus we do not agree with this recommendation. A better way to review Bonneville's costs is through a stakeholder advisory committee such as the ones the agency has utilized in the past. We recommend that BPA conduct a public process before making major financial decisions or changes in direction.

A second recommendation suggested by the Council is that more disputes over costs and business practices be subject to arbitration. While this sounds good, we are concerned that, except for some narrow issues, most of these disputes would affect multiple parties, including important non-customer interests. Therefore we could not support this recommendation unless it was made clear that other parties would be allowed to participate in

the dispute resolution process. In general though, we are skeptical that most large policy decisions are appropriate for dispute resolution in that they rely on values and balancing of interests rather than factual interpretations that lend themselves to formal dispute resolution.

#### **IV. Allocation of the system.**

NWEC supports the recommendations in this section.

#### **V. Should BPA implement tiered rates under the current contracts?**

See answer under III. above.

#### **VI. Products and terms of service.**

The Council recommends that "there should not be any...significant cross-subsidies among products." While in general we favor this principle, NWEC would not emphasize it to the extent that some in the region have. Many, if not most, of BPA's products are what economists call "joint products" that cannot be simply costed out separately. The classic example is trying to objectively establish the separate "costs" of the meat and hide (much less the milk!) of a cow, if one only knows the cost of the whole cow. Since BPA's products mostly come from one integrated system of resources, it is impossible to objectively determine the costs of energy, capacity, shaping, etc. In addition, avoided cost savings and environmental and other social benefits from conservation, RD &D, market transformation, etc., cannot be parsed out either. Finally, the federal system has, like the postal system, averaged many costs over many users as an expression of the nation's political will and culture. BPA should not get too caught up in trying to target each cost to each customer. Many aspects of the system broadly benefit the region and should be supported by all users.

NWEC supports the particular recommendations under this section regarding service to the DSIs, and New Large Single Loads.

#### **VII. Benefits to Exchange customers of the IOUs.**

NWEC supports these recommendations.

#### **VIII. Fulfilling responsibilities for conservation and renewables.**

##### **A. Conservation**

NWEC strongly supports the Council's recommendations on conservation.

In addition, as the Council notes on p. 15, there has been much discussion in the region of how a "new and improved" rate discount program could be designed, but that it cannot do the whole job on its own. Our discussions with BPA and other utility conservation managers have convinced us that, while the present C&RD is popular and has many positive mechanisms,

at bottom it is still *much less cost-efficient than any of BPA's other programs*. NWECC is encouraged by the Council's intention to facilitate a collaborative process to design a new rate discount program and will certainly participate. However, given the need to spend every consumer dollar in a manner that achieves the most savings, we would not want to put too much of BPA's budget into such a program unless it is substantially improved from the current C&RD program.

## **B. Renewables**

NWECC is concerned with the Council's recommendations on renewables. The Council has long recognized that *conservation* is cost-effective, but still needs institutional help to be implemented. One might argue that because cost-effective conservation by definition is the least cost resource, it would be chosen by the market and need no further help. But instead, the Council understands that there are enough barriers to its acquisition that societal help is needed. However this awareness of the barriers conservation faces, and the concomitant need for utility intervention for its successful acquisition, does not seem to have carried over into the Council's treatment of renewables.

Many renewable resources, we believe, are now "cost-effective" if one includes their value in reducing fossil fuel cost and pollution risks; promoting economic development (especially needed in rural areas); reducing greenhouse gas emissions, etc. In addition, there is a high value in demonstrating and encouraging renewables that are not yet cost-competitive but show great promise and benefit to the region. There is also value in developing familiarity, markets and transmission solutions that can only happen if the region, especially Bonneville, is actively developing more renewables. Finally, like conservation, sustained, orderly development, requiring multi-year budget assurance, is the best and most effective way of controlling the costs of building renewables.

It is short-sighted in its recommendations to limit BPA's budgets and responsibilities to only a facilitative role, and thus seriously handicap the region's ability to develop indigenous, clean energy that can stabilize rates and provide substantial economic development. We should allow BPA to build on its current renewable energy capabilities and we should provide it with an adequate budget to do so. Then BPA could follow-through with its mission and provide continuing value to the region.

NWECC also endorses the more detailed comments of the Renewable Northwest Project (RNP) on this topic.

## **IX. Resource Adequacy**

NWECC is gratified that the Council recognizes that Resource Adequacy, in general, and the need for an adequacy standard, in particular, is a critical element in ensuring that the region will not be subject to periodic and wasteful boom and bust cycles, market volatility (and possible manipulation) and possible shortage-produced outages. We also add that a standard

would reduce in frequency or eliminate the necessity to declare hydro-emergencies that interrupt fish-friendly hydro operations.

We strongly support the Council's recommendation in this section, including the stricture that, "appropriate adequacy policies...need to be in place **prior** to the implementation of long-term contracts." (emphasis added, p. 17)

## **X. Fish and wildlife.**

NWEC agrees with the Council that these policies should not affect BPA's fish and wildlife obligations. However, they may affect the ability of Bonneville to meet those obligations. Some of the recommendations, especially regarding conservation and resource adequacy, would take pressure off the river, if implemented, and so would be a positive result for fish. However, if only some of the recommendations were implemented, such as dividing up the FCRPS among the customers, without the others (adequacy, conservation, etc.) resulting in customers having more voice and influence over BPA's budgetmaking, the result could be disastrous for fish restoration efforts. We therefore urge the Council to weigh any proposed changes in BPA's future role and the other recommendations described here *as a package*.

## **CONCLUSION**

The NW Energy Coalition is very supportive of the Council's individual recommendations, except for the section on renewables. We also think that most, if not all, of these recommendations could be implemented by BPA without the extreme remedy of fundamentally changing BPA's resource acquisition role. On that point we take exception to the Council's lack of discussion, and its conclusion, that the problems BPA faced during the past decade require a whole new role for the agency. Instead, we would recommend that the Council ask a more fundamental and forward-looking question: What is the best way to ensure that the Council's least-cost and least-risk strategy for the future, described in the next Power Plan, can be implemented? NWEC does not believe that implementation by over a hundred individual independent utilities is the most efficient and cost effective approach to achieving the goals in the Fifth plan. In fact, that strategy is more likely to result in typical boom and bust resource development cycles. And, as we have seen in the past due to short term rate pressure, it will result in much less cost-effective conservation and cost-competitive renewables being acquired in the region.

A second best solution, if the Council still wants to go down the road of fundamentally changing BPA's role in power supply, is to insist that enforceable mechanisms be put in place in the utilities' contracts that include an adequacy standard and ensure that the region's conservation and renewables acquisitions targets are achieved. Without these mechanisms, the NW Energy Coalition could not support the direction the Council has recommended to allocate the system and thus limit BPA's role in resource acquisition.

Thank you for this opportunity to comment.