



SPRINGFIELD UTILITY BOARD

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April 23, 2004

Mark Walker
Director of Public Affairs
Northwest Power & Conservation Council
851 SW 6th Avenue, Suite 1100
Portland, Oregon 97204-1348

Re: Future Role Of The Bonneville Power Administration – Doc. 2004-02

Dear Mr. Walker,

Springfield Utility Board (“SUB”) appreciates this opportunity to comment on the future power supply role of the Bonneville Power Administration (“BPA”). As mentioned in SUB’s earlier submittal to the council (re: Doc 2003-18), SUB is a municipal utility that serves approximately 30,000 electric customers within the City of Springfield, Oregon. The comments below are intended to supplement those provided earlier.

Overview

The purpose of SUB’s comments is to aid the Council effort in arriving at a cohesive position on an array of complex issues. The treatment of Allocation, IOU benefits, DSI benefits, renewable resources, conservation, and other aspects of the future of BPA cannot be independently determined and then packaged together. Such an outcome would result in an incoherent puzzle - with no piece fitting with any other. As a result, the Council should be cautious to ensure policy decisions are consistent with each other. We are pleased with the Council’s approach to address issues as a whole instead of through separate processes.

SUB has deliberated over these issues for several years and SUB credits the Council and BPA for continuing to confront the region regarding the future role of BPA. You have posed tough questions that require thoughtful responses. This process is an iterative one and requires any set of positions to be tested and evaluated. As a result, SUB suggests that before the council responds to an individual recommendation by SUB or others, that the Council first view the set of recommendations as a whole.

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Allocation Of The Existing System

From SUB's perspective, the overarching issue is the allocation of the Federal Based System ("FBS"). The Public Power Council Executive Committee has initiated a process that began in March to address this specific issue. Through multiple meetings facilitated by Public Power Council ("PPC") staff, SUB has actively participated with members of the PPC in an attempt to arrive at an allocation methodology that the Public Power Council can endorse.

While it is premature to share the specific direction of the group (which is expected to present information to the PPC executive committee in the near future), SUB feels it is appropriate to share its conclusions at this point given the Council's time frame.

Allocation (Generally)

There are two premises regarding the general framework of a functional allocation scheme:

- 1) Investor Owned Utility benefits to their residential and small farm customers are in the form of financial benefits and not an allocation of physical power.
- 2) Direct Service Industries (DSI) must not receive an allocation of the FBS. Any DSI benefits must not increase costs, or even have the potential for increased costs, associated with service to consumer-owned utilities. Some accommodation may be considered to provide a small amount of assistance for a finite period (no later than 2011)¹.

SUB is pleased that the Council's draft paper is supportive of these two assumptions. Should either of the above assumptions not hold true, any proposed Allocation scheme will likely fail before it starts.

BPA indicates it is near load/resource balance (with a slight deficit), assuming its future power sales obligations were only to consumer-owned preference utilities. Therefore, it makes some sense both legally and politically, to allocate the BPA system based on critical water to consumer-owned preference utilities. This would transfer the benefits and risks of the customer's share of the allocation directly to the customer.

Allocation concepts that transfer some of the benefits but all of the risks and costs should not be considered.

SUB concurs with the Council's recommendation regarding having allocation take the form of a 20-year contractual allocation of the system capability of the FBS. SUB remains open to allowing utilities to select different products from BPA over the 20-year period, but the ability to change products once a product is initially selected should be limited.

¹ We question, however, the need to provide any level of rate subsidy to DSIs given the history of DSI power contract windfalls, plant closures, bankruptcies, and the low level of jobs per aMW of power consumed by the industry.

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Recommendation: *Allocate the BPA system for a 20 year period to consumer-owned utilities while providing financial benefits to the residential and small farm customers of IOUs for the same period and no allocation to DSIs. Allocation to consumer-owned utilities would be expressed as a percentage of the Federal Based System capability and initially calculated using existing FBS system capability under critical water conditions. Individual allocations would take the form of system capability – similar to how the current Slice product is allocated.*

Allocation (Methodology)

Generally speaking there are three types of methods that can be used to allocate the system: 1) using historic loads, 2) using future forecasted loads, and 3) using loads which BPA forecasted for each customer at the time the current contracts were signed. A hybrid method could use combination of these three. Each method has strengths and weaknesses.

The council proposes that “[to] preclude opportunities for gaming the process, any allocation should be based on customer’s historic net requirements on Bonneville, rather than forecasts.” Due to a variety of reasons, SUB has significant reservations regarding using historic load and also disagrees that “gaming” is precluded using historic net requirements.

The downturn in the economy has had a broad, yet diverse, impact. The good news for SUB is that SUB sees solid, and much needed, recovery in the future. The loss of a 10aMW load to a small to mid-sized utility has different economic implications than a similar loss of load to a large utility. Therefore, framing allocation based on recent historic loads places a significant economic burden on small to mid-sized utilities. Looking back further in time (pre-2001), allocation is problematic due to issues such as the diversification which occurred with many BPA customers (for which customers paid exit fees).

Using historic loads as the basis for allocation makes some sense in the context of performing the calculation at a future date based on future measured loads (e.g. a calculation in 2011 based on 2008 – 2010 loads). However, this may create some delay in the implementation of any allocation scheme.

Regarding the council’s concern about “gaming”, SUB is also concerned. Any allocation methodology should be transparent and load loss due to economic and other factors should be fairly mitigated across all public customers. SUB would point out that a significant number of BPA contracts allow for customers who have experience a drop in load to decrement 5(b) resources (resources committed to load) on an annual basis. This has allowed some customers to actively manage their net requirements by reducing other resources. Because net requirements are calculated by the difference between loads and resources, both loads and resources need to be addressed in any allocation methodology.

One approach that may address the intent behind the council’s concerns is to use the ten year forecasts used at or around the time the Subscription contracts were signed and forecasts were integrated into BPA’s June 2001 rate case. The forecasts occurred prior to the downturn in the economy, reflected loads and resources, and are available for all customers. One additional

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benefit is that these forecasts would not penalize those utilities that have acquired conservation resources.

As mentioned earlier, SUB is actively working on this issue. We are withholding our recommendation on a single proposal in the interest of working with the broader group of public power.

Recommendation: *Any allocation methodology must address the issue of both loads and resources when determining net requirements. Due to the impact of the downturn in the economy and the relative impact across different types of customers, any use of actual historic loads as the basis for allocation should be conducted at a later date. Use of the forecast conducted for the June 2001 Supplemental rate case could be considered, however if that method is deemed unacceptable we believe that a new forecast of requirements (done for fiscal year 2009, for example) may be appropriate. SUB suggests that the Council withhold from recommending a position on the methodology used to determine Allocation at this time to encourage other efforts on this issue.*

Allocation (Implementation)

Generally speaking, large utilities with resources have the operational capability to implement allocation sooner than those utilities that purchase all of their power from BPA. Allocation is not only a functional change to the way BPA does business in the future – it will lead to a dramatic change in how many utilities operate. The steps necessary to for many utilities to manage an allocation cannot occur overnight. For example, pooling of allocations may be necessary to allow smaller utilities to manage their allocations. Large utilities, with their ability to adjust other resources, inherently have the flexibility to manage an internal resource pool.

Other entities have stepped forward to manage resources for smaller utilities, but currently only the Pacific Northwest Generating Cooperative (“PNGC”) and a handful of largely inactive entities qualify as Joint Operating Entities (“JOEs”) which can pool (as described in the JOE legislation). Therefore, not only are there significant changes (resource procurement, operations, planning, risk management, etc...) which must be addressed internally by each small to mid-sized utility of BPA, but legal changes may also be necessary to allow for the proper management of an allocation to allow each utility the ability to manage its allocation as any other utility.

While the methodology used to determine Allocation could be decided in the near future, implementation should occur at a later date. Customers should not be required to give up their existing 10-year contracts that run through September 2011. Some argue that allocation could be implemented earlier than that time (e.g. 2009), however given that many customers have the right to retain their current contract, implementing Allocation prior to 2011 may be problematic. If allocation were to occur prior to 2011, BPA would be charged with the task of managing different contracts for different products. Issues need to be addressed such as modifications to billing systems and management of Allocation products at the same time one is selling products under current contracts. Cost allocations across product lines would be more difficult and more complex.

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For the reasons above, SUB suggests that while the Allocation methodology may be decided in the near future, there is some merit to plan for Allocation to be fully implemented on October 2011. Any deficit prior to that time could be met with short-term purchases. Joint resource procurement could be encouraged whereby BPA would purchase output of a longer-term resource through 2011 and then the purchase would transfer to another utility.

Recommendation: *Due to an extended transition period needed for utilities to prepare for managing an allocation and the issues associated with managing Allocation products concurrently with existing 10-year products, the Council should remain flexible on the timing of Allocation at this time. All new allocation contracts should expire on the same date.*

Allocation (New/Annexed Public Loads)

The Council's draft paper contains a general recommendation whereby a new allocation could occur to account for new or annexed public loads. Generally speaking, in order for Allocation to work utilities must have some certainty regarding the level of their allocation to effectively plan and manage existing and new resources. The circumstances where an allocation could be reduced should therefore be extremely limited. The issue of New and Annexed Public Loads warrants special attention, as the right to federal power should be in harmony with the territorial acquisitions and new publics. SUB proposes that any allocation be transferred to a utility newly serving annexed or transferred load in proportion to the amount of BPA power provided to the load through the prior utility. The outcome would likely need to be resolved by BPA and the affected customers. Language regarding annexation currently exists in 10-year contracts that could be borrowed upon in future contracts.

The formation of new consumer owned (public) utilities would be handled somewhat differently as the impact is no longer between two existing utilities and is across many. The size of any new public utility could dramatically impact the allocations to other utilities. Therefore, SUB suggests the following framework:

- 1) SUB agrees with the Council that to the degree a new public utility is formed within the territory of an existing IOU that a proportional amount of long-term IOU benefits received from BPA would be transferred to the new utility for the remainder of the allocation period.
- 2) If a new public utility were formed within the territory of an existing public utility, a proportional amount of the existing utility's allocation would transfer to the new utility.
- 3) Well before the expiration of new contracts (e.g. 5 years before expiration), the region should develop a methodology to determine how power will be re-allocated. The methodology would account for the addition of any new public utilities. Advance resolution of the methodology for any new allocation is required to allow utilities adequate time for resource planning. Broad reallocations of the FBS should not occur within the contract period.

Recommendation: *While specific details need to be resolved, SUB generally agrees with the Councils draft recommendation regarding the issue of Annexed Loads and New Publics. SUB suggests that the Council integrate the additional clarifications discussed above.*

Allocation (Load Loss)

SUB differs from the Council's draft recommendation on the issue of load loss. In the case of load loss not due to annexation and/or new publics, a customer's allocation should not be reduced. A customer's initial allocation should be viewed as its maximum allocation for the term of the allocation period. To the degree that load loss occurs and an annual calculation of net requirements is calculated, any decrement to a customers base allocation should allow for that customer to increase its allocation purchase up to it maximum allocation in the future.

Again, the issue of large vs. small utilities comes into play. Large utilities have resources that they can adjust to meet load (their internal power pool). Small utilities without resources lack the same flexibility. A proposal to lower a customer's allocation due to load loss would unfairly impact some utilities and not others. If any final allocation scheme included a temporary decrement to an allocation due to load loss (and after the customer had the ability to adjust resources and/or pool the allocation), then the benefit and risks associated with the decrement could still remain with the customer until the system is re-allocated as stated previously. Under this scenario, the customer would continue to pay BPA for the power based on its maximum allocation and BPA may be asked to re-market the surplus and return revenues to the customer.

Recommendation: *For planning purposes, Allocation should be considered a long-term resource. With the exception of annexed load and new public utility loads, load loss should not impact the ability for a customer to receive its maximum allocation through the Allocation period. Any decrement that may occur should be temporary and the benefits and risks should remain with the utility based on its maximum allocation.*

Allocation (Change in Existing Federal Resources)

SUB shares the concern of the Council regarding loss of existing FBS resources. However, SUB's solution to the issue differs from the Council's draft position. Because SUB's preferred allocation methodology proposes to allocate the FBS as a percentage of the system under critical water conditions to each public utility, any change in existing FBS resources would not change the obligation for each utility to pay for its percentage of the FBS capability. If a resource is removed, the customer remains obligated to pay for its percentage of the FBS capability. Conversely, if an existing resource has increased capability (e.g. more efficient turbine replacement), any increase in FBS resource would also translate to an increase to the customer based on its fixed percentage of FBS capability.

The customer, not BPA, should remain responsible for managing its resource portfolio for its resource needs above its share of FBS capability.

Recommendation: *Any change in existing FBS system capability should not change the obligation for a customer to receive the benefits and pay for the cost of the FBS system capability. The customer, not BPA, should retain the responsibility for managing its resource portfolio.*

Allocation (CFCTs and New Large Single Loads)

The Council specifically addresses New Large Single Loads in its draft. SUB recommends including Contracted For – Committed To (“CFCT”) loads in this discussion. CFCT loads are loads for which BPA has a standing policy to agree to provide service to those loads. It is recommended that the council provide guidance on the treatment of CFCTs. SUB has a total CFCT commitment of 45 aMW and approximately 23 aMW of that CFCT commitment has not historically been served. SUB agrees that DSI loads, or any portion of those loads, should not be allowed to migrate to local utilities and be included in the utilities' allocation calculation. SUB is not saying that a DSI could not be served by a public utility – however the public utilities allocation would not include the DSI load.

Recommendation: *SUB suggests including CFCT loads in the discussion regarding New Large Single Loads. SUB further suggests excluding any outstanding CFCT loads that have not historically been served if a forecast is used to calculate an allocation. Should new CFCT loads materialize in the future, BPA could provide service at the cost of new resources. A future reallocation (after the first Allocation period) could address any increase in CFCT loads. SUB also suggests clarifying that any portion of DSI loads should be excluded from a utility's net requirements calculation.*

Allocation (Transmission)

In the Council's draft recommendation, the Council discusses the value of interrupting DSI service. This raises three concerns: 1) the value of load interruption is vague and location dependant and 2) interruption is primarily a transmission issue as opposed to a power issue, and 3) all loads should have the same ability to acquire an interruptible credit. The value of interruption should be reserved for discussions regarding transmission service and not in the discussion of Allocation. SUB does not support an Allocation process that includes (or promotes) an allocation of BPA transmission service.

Recommendation: *SUB suggests that the council defer discussion on the value of load interruption to another forum and to clarify that the Council is not promoting an allocation of the BPA transmission system through this Allocation process.*

Allocation (Rulemaking vs. Legislative Changes)

SUB concurs with the Council's concerns regarding potential attempts to allocate the system through legislative changes and finds it difficult to foresee an allocation methodology SUB would support which is based on legislative change.

SUB does have concerns regarding the Council's proposal to use rulemaking through the Administrative Procedure Act as the vehicle to achieve any necessary changes. SUB sees the current formal public policy process that BPA uses in combination with contract language as adequate to implement any changes in the way BPA and its customers conduct business. BPA's formal public policy process would culminate in a Record of Decision which would be followed by an aggressive timetable to generate new Allocation contracts that would be offered to public utilities in the near future and effective on the implementation date.

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SUB could consider rulemaking through the Administrative Procedure Act should the Council fully explain the process and identify the strengths and weaknesses associated with its rulemaking proposal compared to the process described above.

Recommendation: *SUB recommends the Council retain its position regarding achieving changes in BPA's future role without legislative changes. The Council should consider BPA's current policy-making process combined with a defined timetable to develop and offer contracts as the mechanism to achieve the outcome of this process.*

Conservation (Generally)

SUB has a strong track record regarding conservation and has implemented conservation programs since the 1980's. Over the past five years SUB has achieved the equivalent of 4% of its annual retail rate revenue in conservation program expenditures. SUB's goal from this process is to move forward with a sustainable conservation program for SUB and for the region as a whole and we support the Council's efforts. BPA should continue to support cost effective conservation, now and in the future.

For any conservation program, BPA's focus should be on crediting the regional value of the measure to the utility rather than dictating how measures must be implemented. "Cost effective" conservation should not translate to managing individual utility costs, but rather translate to the goal of providing "value effective" regional conservation. While the BPA and the Council has not proposed micro-management of individual utility programs, there are indications that others in the region may promote such a concept. BPA and the Council should focus on the goals by sending appropriate signals to utilities and allowing each utility to be creative and respond appropriately to its unique customer base. Utilities should be allowed the flexibility to do what they do best.

Recommendation: *Regardless of what form regional conservation takes, the goal should be a sustainable conservation program within which BPA and the Council sends the appropriate signals to utilities on the value of conservation. Utilities should continue to be given the flexibility to do what they do best – deliver conservation to meet the needs of its own customer base. BPA and the Council should continue to focus on regional goals while allowing utilities to achieve individual goals.*

Conservation (C&RD & ConAug)

SUB participates in both the Conservation and Renewable Discount (C&RD) and Conservation Augmentation (ConAug) programs and finds the current structure appropriate for sustainable conservation programs.

It is important to note that C&RD is made of three important components: The overall C&RD target, the Credit Per Measure, and the Deemed Savings per measure. The overall C&RD target is currently expressed as a forecast of the customer's retail load over the rate period multiplied by a \$0.50/MWh credit. The retail forecast is updated annually and a monthly credit is applied

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to the customer's bill. The Credit Per Measure is the cents per kWh value received by the utility for each measure achieved. The Deemed Savings amount, determined by BPA, is the kWh savings per measure. These three components make up the "three-legged stool" upon which the C&RD program functions.

A utility's ability to successfully implement the C&RD program is impacted by changes to any of these components. SUB has had to adjust its program activity within the current rate period as a consequence of adjustments in the Credit Per Measure and Deemed Savings amounts. The difficulty with frequent changes to the C&RD program is that a utility must continually evaluate whether to stop or start certain conservation programs. SUB requests that the Council advocate that changes in the C&RD program be as infrequent as possible to allow utilities to plan sustainable activities and to allow for effective marketing and administration of C&RD programs. SUB appreciates and understands the efforts the Regional Technical Forum has undertaken to communicate with utilities regarding program changes. The goal should be to derive an appropriate value for each measure. However, SUB would strongly support a Council policy whereby changes to C&RD would be limited (e.g. every three years) to balance the desire to "get the number right" with the need to effectively implement programs on the ground.

Recommendation: *The Council should carefully consider any recommended changes to the C&RD or ConAug programs with regard to measuring the sustainability of overall conservation programs. SUB suggests that with C&RD (or any conservation program) that the program variables (e.g. amount, credit, and deemed savings) be fixed for a period of time to allow utilities to effectively plan, budget, market and implement measures.*

Conservation (Potential)

The Council has identified 2860 aMW of achievable conservation potential through 2025². SUB had a number of questions regarding the specific details behind the numbers and appreciates Charlie Grist and Tom Eckman for taking the time to further explain the Council's analysis. SUB would like to take this opportunity to highlight some of the issues for the Council's consideration.

New Commercial Conservation Potential: SUB currently performs energy code enforcement for the City of Springfield, receives plans for new construction in a timely manner, and is quickly in contact with new customers. SUB notes that customers are resistant to change architectural designs once plans are submitted to allow for new conservation measures. Therefore, SUB suggests that the primary mechanism for new Commercial Conservation be through market transformation (code changes) rather than an expectation that utilities would achieve the goals on their own.

Residential Heat Pump Water Heaters: SUB had looked into these two years ago but found them unreliable and only effective in climates with high humidity (of

² Council's draft figure as of March 4, 2004

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which Springfield is not). Tom Eckman clarified that reliability has been addressed in the new models.

New Residential Electrically Heated Homes: The Council used a regional figure of approximately 80% for the percentage of new homes that are heated by gas. In 2003, SUB did an analysis of conservation potential that evaluated current inventory, past activities, and demographic trends for new construction. For Springfield, Oregon, approximately 44% of new home construction are gas heated (and gas heated homes tend to have gas appliances and water heaters).

The bottom line is that each program is unique and each demographic area is unique. SUB initially had a concern that the council's regional goals would directly translate to specific goals for each utility. After talking with Tom and Charlie, SUB is pleased that the Council recognizes that each situation is different. SUB advocates for utility-specific development of unique conservation program goals rather than mandating specific regional goals on each utility. The Council's efforts are important to provide guidance to regional activities while acting as a resource to complement and enhance local conservation programs.

Recommendation: *In the Council's final recommendations, SUB recommends that the Council expand on the unique characteristics of each utility service area, conservation activities, and conservation potential.*

Conservation (aMW Targets and Funding)

In SUB's 20+ years experience in delivering conservation savings SUB has observed that if one wants to achieve more conservation savings usually one must spend more money. In order to get more people through the door to implement programs, one must not only increase the incentive, but also marketing and administrative costs. Implementation costs are non-linear relative to each incremental kWh saved. At some point the market potential becomes saturated and one must spend more to get less. SUB is concerned that this process may result in the Council recommending increased conservation targets and reduced funding. SUB believes such an outcome would be unsustainable and that the Council should carefully balance aMW targets and funding in any recommendation.

An example of the issue regarding the incremental increase in costs associated with incremental conservation acquisition is found when looking at BPA's C&RD program. In 2001, the average installed cost of C&RD programs was \$1.75 million per aMW (or an installed cost of 19.9 cents per kWh). In 2002, the installed cost was \$1.98 million per aMW (22.6 cents per kWh installed) and in 2003 the cost was \$2.23 million per aMW (25.5 cents per kWh installed)³. To suggest that this shows that the C&RD program is "broken" because of the trend of increasing costs would miss the point. The lower cost conservation is made up of the "low hanging fruit" – those opportunities which are easy to identify, easy to generate public interest, and easy to implement. Over time, the trend is that one must work harder and invest more to achieve the same kWh savings unless there are significant technological advances.

³ BPA's Conservation and Renewable Discount Interim Report to the Region, Final Draft, March 1, 2004 – Based on C&RD tracking software, November 18, 2003.

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For this period (2001 – 2003), the average installed cost for C&RD conservation measures was 23.4 cents per kWh. Most (75%) of the C&RD programs were for residential conservation and had over a 15 year life. Assuming a 15-year life, the average cost of C&RD over the three-year period was \$21.5/MWh. This figure is impressive when compared to an avoided cost of \$45.20/MWh⁴.

Conservation discussions have included the possibility of doubling the C&RD credit in an effort to achieve conservation goals. In SUB's particular case, we have evaluated our current program (which is a combination of C&RD and ConAug) with the scenario of a doubling of the C&RD credit. SUB has concluded that a doubling of the C&RD credit would likely result in our substantially reducing our participation in a ConAug program. The primary message to the council is that, to some degree, sustainable conservation is a zero-sum game and increasing targets in one program may result in a drop in another. Many conservation measures have a finite resource base (particularly for those utilities that have been providing conservation services for some time) and one is constantly evaluating the appropriate level of acquisition rates to achieve long-term goals.

Recommendation: *While SUB supports the Council's efforts to achieve as much cost effective conservation as possible, the Council should balance any increase in conservation targets with the reality that in many cases you must spend more to achieve more. An outcome where the Council proposes declining incentives and increasing targets is likely to result in unsustainable regional conservation.*

Conservation (Allocation)

SUB perceives a bright future for conservation, particularly if Allocation were to be implemented. Avoided costs vary across utilities and individual utilities would have an increased incentive to find creative ways to meet load growth through conservation and load management programs. However, one should not have conservation goals drive the Allocation process. As stated earlier, the Allocation process must allow for an extended transition period to allow for proper implementation.

Recommendation: *SUB suggests that the Council consider recommending that BPA continue with conservation equivalent to its current level of C&RD and ConAug programs until Allocation is finally implemented (2011). The Council should continually update conservation potential. After Allocation is implemented, the Council should periodically adjust its recommendations for near and long term conservation goals.*

Conservation (Draft Recommendations)

With the above comments in mind, SUB has the following suggested changes to the Council's draft recommendations:

⁴ Based on the Council's levelized cost of a 305 MW single-cycle gas fired plant.

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- 1) Clarify that the term “cost effective” is intended to mean that the Council’s goal is to identify the appropriate value of conservation activities, to provide tools to help utilities establish individual goals, and recommend mechanisms which effectively capture the value of conservation through sustainable programs.
- 2) The Council states that “The fact that Bonneville’s customers can bring back loads to Bonneville at the end of the contract period makes achievement of all cost-effective[sic] conservation a continuing priority”. SUB suggests deleting this sentence or clarifying which future state the Council is discussing in the context of this sentence. The Council should be cautious of mixing realities: either we are entering an era of Allocation or we aren’t. If Allocation occurs, the Council’s statement is incorrect – customers, not BPA, would be primarily responsible for resource acquisition. If the council is assuming that all load growth would return to BPA at the end of the Allocation period then the Council should be advocating BPA conduct regional development of all resources – not just conservation.
- 3) The Council states that it “supports the use of a mechanism like the Conservation and Renewable Discount to support local implementation. However, the existing mechanism must be redesigned to ensure cost-effective acquisitions, encourage best practices and minimize the cost of acquisition consistent with achieving the savings.” With the C&RD program delivering savings at \$21.5/MWh when an alternative resource is \$45/MWh, SUB finds it extremely difficult to comprehend the need for significant changes to the C&RD program based on current targets. Terms like “encourage best practices” appear to send the signal that it is the Council’s goal to micromanage utility programs. The Council should focus on value – not dictate specific programs. Should conservation aMW targets be increased, SUB does see a need to for the Council to recommend an increase in incentive levels. SUB suggests that the Council change the wording of the language on the 4th bullet on page 14 of its draft recommendations to read:

“Conceptually, the Council supports the use of a mechanism like the Conservation and Renewable Discount to support local implementation. However, the existing mechanism may need to be redesigned to properly capture the value of conservation to meet regional targets.”
- 4) On the last bullet on page 14, the recommendations state: “The Council believes a broader range of conservation activities should be carried out at the regional level than was described in the original customer proposal. This is because there are a number of activities that can be carried out more effectively if they are approached on a coordinated regional basis with local implementation”. SUB agrees with this statement to the degree the Council refers to conservation resources that can be achieved through market transformation (i.e. codes). If the Council is referring to a broader range of programs other than market transformation, based on the value provided to the region from the current C&RD program, SUB respectfully disagrees. Without further analysis provided by the Council, it is difficult to comprehend what the Council intends by this statement. SUB suggests the wording be changed to:

“The Council believes a broader range of conservation activities should be carried out at the regional level than was described in the original customer proposal. This is because there are a number of activities that can be carried out more effectively if they are approached on a coordinated regional basis through market transformation (i.e. codes), in cooperation with local utilities.”

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Rather than suggest other specific edits, SUB suggests that the Council reflects on the entire section of its draft recommendations regarding conservation and re-crafts the language to reflect the issues identified by SUB in this paper.

Renewables

SUB finds the current structure of combining conservation and renewable resource development goals (as opposed to creating separate mechanisms) very appropriate. It allows individual utilities the flexibility to meet their customer's needs while achieving regional goals.

Recommendation: *The Council should continue to promote a combined delivery mechanism to achieve conservation and renewable development goals to allow individual utility's to meet their customer's needs.*

Products

SUB agrees with the Council's draft recommendation to allow customers to purchase a variety of products from BPA. The goal should be that all customers should have an equal opportunity to purchase and be allowed some pre-determined opportunity to switch products within the twenty year Allocation period.

Conceptually, Slice customers (or the equivalent future product) would internally manage the risks and benefits of their allocation. Customers who purchase other products (full/partial service and block) would still receive the benefits and risks of their allocation, however BPA would have a more active management role in acquiring balancing purchases and other products necessary to fit the particular products sold by BPA. Revenues from surplus power would flow to the non-Slice customers based on their allocation and product selection.

There are two issues of particular concern regarding Allocation products: 1) DSI service with surplus power and 2) implementation of Allocation products in conjunction with Subscription products prior to 2011.

SUB is supports sales of surplus power to creditworthy customers, including DSI's. However, while DSI's may be given regional preference to power, they should not be given any price preference from BPA regarding surplus power sales. Price preference would result in non-Slice customers receiving lower value for their surplus power. This would result in those customers receiving all of the costs and risks associated with an allocation without the corresponding benefits.

Regarding implementation of new Allocation products concurrently with existing Subscription products prior to 2011, SUB is concerned about potential contract language that may be implemented in Allocation products which address BPA cost control. On one hand, it may result in indirect benefits to Subscription contract holders should such an outcome result in a reduction in overall costs. On the other hand, this may result in more costs being shifted to Subscription contract holders -resulting in customers paying different prices for the same product. It is difficult to see how SUB could support the latter outcome and the Council should explore the impact to products relative to any implementation of Allocation.

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Recommendation: *SUB supports the Council's recommendation to allow customers the ability to purchase a variety of products from BPA (as opposed to promoting a single product). The Council should advocate that Allocation provides an equivalent level of benefits and risks, regardless of product selection. Price preference too creditworthy DSI's regarding the sale of surplus power should not be mandated. Product implementation prior to 2011 should be equitable for all public customers.*

Tiered Rates

SUB appreciates the Council's position on tiered rates and believes that the issue of tiered rates may be avoided through short-term purchases until Allocation is fully implemented.

Conclusion

SUB hopes that the Council would use much of the concepts and suggestions in this paper in the Council's final recommendations. Regarding issues identified by BPA (attached at the end of the Council's document), SUB has addressed some of the issues here and will be expanding on them further in the context of BPA's process. SUB appreciates the Council taking a lead role in attempting to identify and resolve the issues regarding BPA's current and historic responsibility.

Respectfully submitted,

_____/s/_____

Jeff Nelson
Power Resource Manager

cc: SUB – Steve Loveland, Bob Schmitt, Bob Linahan
BPA – Paul O'Neal