



## BPA Issues, Rates and Contracts

March 2010

All PPC members have signed long-term power contracts with the Bonneville Power Administration (BPA) for post-2011 service. Under the contracts, BPA allocates the output of the existing federal system to the region's public power customers, and these customers determine how to meet their own load growth – either directly or indirectly through BPA or other entities.

**PPC is diligently working with BPA and other stakeholders to address any unresolved matters key to implementing these contracts.**

- **Renewable Resource Initiatives:** PPC members expect to see significant use of renewable resources to meet load growth needs into the future. Renewable Portfolio Standards in Northwest states create an added need to facilitate these resources. BPA has played a significant role in facilitating large additions of renewable resources in the region, including over 2500 megawatts of wind power. The wind integration action plan and transmission “network open season” are two programmatic efforts that help the region continue to be a leader in harnessing renewable energy. Similarly, recent BPA action on transmission rates and interconnection charges further supports wind development.

PPC believes, however, that the impacts of the rapid addition of renewable resources – most of which operate intermittently – need to be carefully considered. **Issues of concern include:**

- Impacts from out-of-region export of a significant portion of the region's renewable energy, with the benefits shipped to California and the operational challenges left in the Northwest;
  - The intermittent nature of wind generation requires access to the region's generating capacity to firm the resource and smooth its operations. This is capacity that is in limited supply and is also needed for regional utility operations and meeting fish obligations;
  - Ensuring that BPA borrowing authority is used effectively to meet the core mission of serving preference customer loads far into the future;
  - In a carbon constrained world, renewables will be the power source of choice. But it is important that these resources pay an appropriate share of transmission and power costs, and are not subsidized by others through inappropriate cost allocation.
- **BPA's Conservation Program Should Recognize Customers' New Responsibilities of Post-2011 Service:** Northwest consumer-owned utilities have a strong record of achieving energy efficiency. Price signals from BPA Tier

2 rates, other contractual provisions, and (in some case) state laws create additional strong incentives for BPA's customers to acquire all cost-effective conservation. The shift in responsibility for load growth resulting from the new contracts requires a similar recognition by BPA with respect to its conservation programs. The post-2011 approach by BPA must incorporate the key leadership role of local utilities in order to enable the most energy efficiency possible, both for utilities desiring to continue to run programs through BPA, and for those desiring more individualized flexibility.

- **DSI Benefits Should be Discontinued:** Over the last year, the 9<sup>th</sup> Circuit Court of Appeals has twice determined that BPA's contracts with the Direct Service Industries are unlawful. The Court highlighted that:
  - BPA has no legal obligation to serve the DSIs;
  - Any service must have a well-reasoned business justification and provide BPA with demonstrable system benefits – BPA cannot justify a subsidy to the DSIs at preference customers' expense just to retain well-paying smelter jobs; and
  - BPA failed to provide a reasoned analysis of the impact of BPA intentionally losing hundreds of millions of dollars to benefit these two companies.

Nonetheless, BPA has signed new contracts with Alcoa and Port Townsend Paper and is in discussions with Columbia Falls Aluminum Company. Continued service to the DSIs will increase costs to other businesses and communities served by public power, costing jobs in our communities. Moreover, BPA and its public power customers bear the financial risk under the new contract.

- **IOU Benefits Must be Consistent with the Law:** Residential and small-farm customers of regional investor-owned utilities are allowed to receive benefits from BPA, but these benefits need to be consistent with the law. PPC has challenged BPA's current method of providing benefits to the IOUs for failing to give preference customers the rate protection provided to them under the Northwest Power Act. Recently, representatives of public power and investor-owned utilities began new discussions. We are hopeful this process will forge a solution that comports with the law and provides long-term stability for the region.

***PPC continues to work with BPA and other stakeholders on many issues impacting power and transmission rates and post-2011 service. The stability of these contracts – and the region's cost-effective power supply – depends on balanced and equitable policies that contain costs and respect the important statutory protections intended for the citizens of the Northwest.***