



Key Concerns with DOE Memorandum on PMA Policy

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On March 16, 2012, Department of Energy Secretary Chu released a memorandum outlining a vision and policy direction for the federal Power Marketing Administrations (PMAs). While short on specific policy prescriptions, the document raises significant concerns in a number of areas.

Scope, Mission and Legal Authority of the PMAs

The core mission of each of the PMAs is to market power generated at federal multipurpose dams to public power systems at the lowest possible rate consistent with sound business principles. Over the years, the authority of the PMAs has been refined and expanded. For instance, BPA has authority to acquire resources (with a prescribed priority for resource selection) to meet the load of regional utilities, operate a program to enable the residential and small farm customers of the region's private utilities to share in the benefits of the hydropower system, and to mitigate the impacts on fish and wildlife. Yet, in each case Congress has given specific authority and direction to BPA.

Moreover, each expansion of BPA's mission has still respected the core tenets of preference and cost-based rates, as well as BPA's role as a wholesale power supply entity. In several respects, the DOE Memorandum suggests new missions for BPA that are outside the agency's existing statutory authority:

- BPA and the other PMAs are directed to serve as “test beds” for innovative cyber security technologies. Testing and proving technologies is a role for DOE labs, not an agency that has 100% of its costs recovered from ratepayers.
- DOE is calling for changes in BPA rate design to “incentivize” policy objectives. By definition, an incentive is a payment that is greater than simple cost-recovery – which conflicts with BPA's statutory mandate for cost-based rates.
- DOE implies that BPA should participate in a West-wide market to address energy imbalances resulting from intermittent renewable generation. By law, BPA is restricted to operations within the watershed of the Columbia and Snake Rivers.

- BPA and the other PMAs are being told to take steps to support, encourage and facilitate renewable generation – even when that renewable generation is not being used by BPA ratepayers. This is all the more troubling given that BPA has already achieved the highest rate of wind penetration of any balancing authority in the country.
- Some of the directed rate incentives – like electric vehicle deployment – are issues for retail electric utilities, not wholesale power and transmission providers like BPA.

Throughout the document, BPA statutory limitations on cost recovery, mission and geographic scope are either blurred or ignored.

Regulatory Oversight

In several respects, Secretary Chu’s memorandum envisions a world in which BPA and the other PMAs are subject to expanded regulatory oversight and direction by both the Department of Energy and the Federal Energy Regulatory Commission (FERC):

- Although the document states in a footnote that creation of and participation in a Regional Transmission Organization (RTO) is not being advocated, there are several policy initiatives advanced that clearly lead towards that conclusion. The memorandum calls for elimination of rate “pancaking,” merging of balancing authorities, formation of an “energy imbalance market,” and broad regional transmission planning. Each of these elements leads to discussion of an RTO – and the full jurisdiction of FERC that would result. The Northwest has repeatedly rejected RTO formation, because of both cost concerns and the fear of ceding control to FERC.
- The memorandum also implies a number of rate design elements that the PMAs will implement. In several cases these rate issues are outside the scope of BPA’s authority, and in each case the policy’s inclusion is being pre-determined without any regional discussion and outside the lawful rate-setting process.
- DOE appears focused on one-size-fits-all solutions, rather than deferring to regionally-derived (and less expensive) alternatives. Just as the Northwest Power Pool is reviewing and implementing tools to better address energy imbalances resulting from intermittent renewable generation, the DOE memo implies a mandate for a West-wide, market-based “solution.”

Cost Concerns

BPA, with its lower-cost power supply and legally mandated provision of cost-based

rates, has been an important economic engine for the Northwest. The DOE memorandum ignores the legal requirements for cost-based rates, and may lead to additional costs on BPA customers without providing corresponding benefits, and also risks sacrificing the low-cost rates that have been a lifeline for the Northwest economy:

- The memo suggests various initiatives – like a West-wide energy imbalance market – that appear to decide on a policy approach irrespective of cost. BPA should focus on the least-cost means of achieving policy objectives that fall within its statutory authority.
- BPA is told to provide “incentives” – payments in excess of costs – in redesigning its rates to achieve various policy goals.
- The important rate design issue of “cost causation” – costs are paid by the parties that cause the action – is repeatedly ignored. Instead, BPA appears to be directed to pursue policy objectives that would impose costs on BPA ratepayers without providing offsetting benefits.

Conclusion

While the broad policy goals of the memorandum may be laudable, DOE appears to be unconcerned that its policy goals may be moving BPA in a direction that is outside the agency’s statutory mission, increases FERC jurisdiction and reduces regional oversight, and imposes unwarranted costs on Northwest ratepayers.