

# **SUMMARY OF LONG-TERM FEDERAL ALLOCATION PROPOSALS**

J. Lawrence Cable  
Lindsay R. Kandra  
Cable Huston Benedict Haagensen & Lloyd LLP  
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## **INTRODUCTION**

This paper will briefly outline and compare the long-term federal power allocation proposals released by the Public Power Council in 2004 and by the Bonneville Power Administration in the fall of 2005. Specifically discussed are: future service to publicly-owned utilities, Residential Exchange Program settlement, future service to Direct Service Industries, conservation, renewable energy, resource adequacy, cost control and dispute resolution.

## **BACKGROUND**

### **I. Public Power Council Proposal**

The Public Power Council (“PPC”) is a group representing the Pacific Northwest’s consumer-owned utilities on regional policy issues. PPC released its initial allocation proposal in August 2004.<sup>1</sup> The cornerstone of this proposal is an allocation system based on a percentage of Federal Base System output.

### **II. BPA Concept Paper**

On September 12, 2005, the Bonneville Power Administration (“BPA”) released its Concept Paper outlining a proposal for its long-term role as federal power marketer and supplier (“BPA Proposal”).<sup>2</sup> Notably, the BPA proposed to:

- Negotiate and enter into new 20 year contracts with its publicly-owned utility customers.
- Establish a two tier rate structure.
- Calculate a 20 year “high water mark” that will set a ceiling for a publicly owned utility’s entitlement to a set quantity of BPA power over the term of the new contract.
- Settle all issues related to Residential Exchange Program reimbursements before entering into the 20-year contracts.
- Establish rules for BPA service to newly-formed publicly-owned utilities.

## **SUMMARY AND COMPARISON OF PPC PROPOSAL AND BPA PROPOSAL**

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<sup>1</sup> The PPC’s initial August 18, 2004 allocation proposal is posted on PPC’s website: [http://www.ppcpx.org/LTBPA/Allocation\\_Proposal\\_8.18.04.pdf](http://www.ppcpx.org/LTBPA/Allocation_Proposal_8.18.04.pdf).

<sup>2</sup> The BPA Proposal is posted on BPA’s Regional Dialogue website: [www.bpa.gov/regionaldialogue](http://www.bpa.gov/regionaldialogue).

## **I. Allocation of Service to Publicly-Owned Utilities**

### **A. PPC Proposal**

The PPC proposed an allocation system based on a percentage share of the actual output of the Federal Base System. Each utility would be entitled to a percentage of the output of the Federal Base System. This percentage would be based the utility's Fiscal Year 2002 net requirement. "Special case" adjustments could be made for utilities facing special circumstances or hardships. The allocation percentage would be fixed for the term of the contract and would serve as a "financial dividing line" between power a customer is entitled to at an embedded coast and power for which it is required to pay an incremental cost.

The allocation percentage derived for each utility, when applied to the annual energy output of the Federal Base System, produces the maximum annual Federal Base System share for that utility. A utility could purchase its share as a Slice, Block, Full Requirements or Partial Requirements product.

### **B. BPA Proposal**

The BPA rejected the PPC proposal, instead proposing to base its allocation on entitlement to a fixed quantity of power.

#### *(i) Twenty Year Contracts and "High Water Mark" Right to Power*

The BPA proposed to establish a 20-year "High Water Mark" that defines each customer's right to cost-based power from the Federal Base System. These High Water Marks would be permanent for the 20-year duration of the contracts. The BPA supported this allocation system by stating that it would give the customer 20 years of certainty regarding the actual amount of federal power that the customer could purchase at preferential rates. The High Water Mark could be changed only if the utility's service area is altered through annexation or sale.

The BPA proposes that each customer's High Water Mark be generally based on the level of purchases that the customer made for BPA Fiscal Year 2002 under current Subscription Contracts. BPA estimates that the sum of all High Water Marks will be less than the current capability of the Federal Base System until approximately 2012-2015. Until the sum of all High Water Marks equals Federal Base System capability, each publicly-owned utility's individual High Water Mark would increase proportionately up to the firm capability of the Federal Base System.

The BPA proposes to offer roughly the same mix of power products that it now sells to publicly-owned utilities, including Full Requirements Service and Block Power Service. A regional team is being formed to work with the BPA to decide how much Slice product the BPA will sell and what, if any, changes the BPA will need to make in the product after four years of experience with Slice.

(ii) *Tiered Rate Structure*

The BPA's proposed service and rate model is premised on the development of two "Tiers" of rates.

a. Tier 1 Rate

The BPA proposes that all 7,300 average megawatts ("aMW") of firm power from the existing Federal Base System be sold to the region's publicly-owned utilities, consistent with the public preference provisions of the Pacific Northwest Electric Power Planning and Conservation Act (the "Regional Act"). The BPA would charge a "Tier 1" rate for this power, with the Tier 1 rate based on the costs of the existing federal system resources.

The BPA proposes that customers not be allowed to pool unused amounts of Tier 1 power. Rather, any temporary excess of Tier 1 power, if not needed to meet the BPA's other service obligations, would be sold by the BPA and the proceeds used to hold down the rates of all Tier 1 purchases. The BPA does not address the rate at which that temporary excess Tier 1 power would be sold.

b. Tier 2 Rate

The BPA would provide service in excess of a customer's High Water Mark only upon request of the customer. The BPA would acquire additional power for that customer and the customer would agree to pay BPA's cost of acquiring the power through a higher "Tier 2" rate. The costs of acquiring Tier 2 power would not be melded with the costs of the existing Federal Base System when the BPA sets Tier 1 rates.

The BPA provides two justifications for its proposal to establish Tier 1 and Tier 2 rates. First, BPA argues that its proposed Tier 1 rate will reflect the actual value of the low-cost Federal Base System because it would not meld in the costs of BPA's acquisition of higher-priced resources or market purchases. Second, BPA states that utilities would get a clear picture of what resources they would need to develop or purchase in the future, since they would bear the higher Tier 2 costs of any power beyond their Federal Base System allocation.

The tiered rate structure for long-term contracts would be established in a rate-setting process under Section 7(i) of the Regional Act. These rates would be adjusted to account for costs such as the Residential Exchange Program and the costs of BPA's public responsibilities, such as compliance with the Endangered Species Act.

(iii) *New Publicly-Owned Utilities*

The BPA Proposal also discusses treatment of newly formed publicly-owned utilities that request BPA service. The BPA proposes that any such new customers that are formed from an Investor Owned Utility be given a permanent High Water Mark only if, at the time of request, some amount of Tier 1 power is not being purchased by existing customers. If and when actual energy deliveries, including those for new publicly-owned customers, are forecast to exceed the existing federal base system, all Tier 1 customers' energy deliveries would be reduced

proportionately until they equal the output of the Federal Base System. The BPA does not address the method through which a new publicly-owned utility's High Water Mark would be established. The BPA Proposal also does not address the question of whether a newly formed publicly-owned utility would be given a High Water Mark that results in the sum total of all High Water Marks exceeding the capability of the Federal Base System.

If, at the time of a new publicly-owned utility's request, all Tier 1 power is being purchased, then the new public would not receive a High Water Mark, but would be eligible to purchase power from BPA at Tier 2 rates and participate in the Residential Exchange Program. The BPA Proposal suggests that the publicly-owned utility would be eligible for cost-based power when the new 20-year contracts expire.

A new publicly-owned customer that is formed out of an existing publicly-owned customer will simply get a pro rata share of the original utility's High Water Mark.

## **II. Resource Removal**

### **A. PPC Proposal**

The PPC's proposal allows publicly owned utilities to remove 15% of its net requirements by undeclaring nonfederal resources.

### **B. BPA Proposal**

The BPA is willing to allow a customer to undeclare of 5% of its total retail load. Tier 1 customers would generally not have the right to add resources to reduce their Tier 1 purchases after the High Water Mark is set. A customer would be allowed, under certain circumstances, to exercise certain off-ramp rights to reduce its obligation to purchase Tier 1 power. These off-ramp rights would allow a customer to remove load from its Tier 1 purchases for the duration of the contract. The BPA Proposal does not address how the BPA will distribute the power removed from Tier 1 purchases through the exercise of off-ramp rights.

## **III. Residential Exchange Program**

The Residential Exchange Program ("REP") created by the Regional Act allows both investor-owned and publicly-owned utilities to financially exchange their higher-cost resources for BPA's lower-cost resources and to pass the rate benefits on to their residential and small-farm consumers.

### **A. PPC Proposal**

The PPC supports the BPA's suggested approach to providing financial benefits to investor-owned utilities, as explained below.

### **B. BPA Proposal**

The BPA believes that the REP interferes with its proposed two tier rate structure and other programs in its allocation Proposal. Therefore, BPA wants to settle all REP fund entitlement issues before it enters into the new 20-year contracts. First, the BPA proposes that publicly-owned utilities agree not to claim these exchange benefits as a condition of their new contracts. Second, the BPA wants to negotiate a settlement with IOUs, whereby the IOUs agree to receive \$100 million to \$300 million per year for their residential ratepayers in exchange for their promise to refrain from claiming entitlement to other REP benefits.

The BPA believes that this proposal would give the IOUs an amount of benefits roughly equal to what they would receive through participation in the REP, provide much greater long-term certainty on REP benefit levels, reduce regional conflict and avoid millions of dollars in REP administrative costs.

The costs of the proposed REP settlements with IOUs would be paid through Tier 1 rates.

#### **IV. Service to Direct-Service Industries**

The existing Subscription Contracts between BPA and the direct-service industries (“DSIs”) expire in 2006. The BPA announced last June that it would offer contracts to four DSIs through 2011. Service is limited to a maximum 577 average megawatts (or the financial equivalent) to be distributed amongst the four DSIs, with a cap of \$59 million a year.

##### **A. PPC Proposal**

The PPC opposes the extension of DSI benefits post-2001.

##### **B. BPA Proposal**

BPA is not required by law to continue this service to the DSIs beyond 2011. BPA proposes, however, to continue its 2006-2011 offer indefinitely.

#### **V. Conservation**

##### **A. PPC Proposal**

The PPC believes that the BPA should allow for the greatest amount of utility flexibility without creating disincentives for achieving conservation.

##### **B. BPA Proposal**

The BPA hopes to encourage development of further cost-effective conservation in the load it serves by continuing its current general approach to conservation post-2011. Under the BPA proposal, costs of conservation acquisition will be recovered in Tier 1 rates because conservation would theoretically free up more Tier 1 power for purchase by customers. The focus would continue to be on facilitating achievement of conservation at the local level. The

BPA's megawatt goal for conservation would be based on the Northwest Power and Conservation Council's power plan, and the BPA wants to meet that goal at the least cost.

## **VI. Renewables**

### **A. PPC Proposal**

The PPC does not believe that the BPA should be acquiring new renewable resources to provide Tier 1 service.

### **B. BPA Proposal**

The BPA proposes two main activities regarding renewable resources: (1) development of creative Tier 2 renewable products and (2) continued funding to facilitate renewable resources in the region. Such funding would be at the Tier 1 level.

The BPA Proposal calls for tying the amount of Tier 1 funding for renewable resources to the region's success in meeting Northwest Power and Conservation Council targets. Renewable products could include wind integration services, alternatives to financing or reducing costs of transmission upgrades, grants to offset upfront costs of customer-sponsored renewable research and development projects, and research and development projects that support long-term growth of the renewable market.

## **VII. Resource Adequacy**

According to the BPA, there is growing support for a regional resource adequacy standard and for a neutral third party, such as the Northwest Power and Conservation Council or the Northwest Power Pool, to track compliance with that standard.

### **A. PPC Proposal**

The PPC is opposed to contractual resource adequacy requirements that would place any entity in a regulatory role over consumer-owned utilities.

### **B. BPA Proposal**

The BPA has a three-fold resource adequacy proposal. First, it proposes to include a provision in new power sales contracts that could require customers to provide data for adequacy assessments to a neutral third party. The BPA would provide the data for its full-requirements customers.

Second, the BPA believes that notice provisions for Tier 2 power service products that count toward the regional adequacy standard should be linked to the planning timelines that are agreed to as part of the adequacy effort.

Third, the BPA proposes two power sales contract options. One option assumes the BPA's Regional Dialogue succeeds and achieves the following targets: consensus-based adequacy metrics and individual utility targets, a workable adequacy tracking mechanism, and an implementation approach that has regional support. This option would simply reference the need to adhere to the agreed-upon regional adequacy framework. The second option, if the forum is unsuccessful, would be to include contract provisions that establish a definition for measuring adequacy that specify reporting requirements and that require or incentivize implementation.

## **VIII. Cost Control**

### **A. PPC Proposal**

The PPC supports the BPA's efforts to make meaningful cost-control and dispute resolution mechanisms part of its long-term contracts, but feels further work is needed.

### **B. BPA Proposal**

The BPA's Proposal acknowledges that its customers need reasonable assurance of long-term cost control, as they would be making a 20-year commitment to pay those costs. BPA proposes cost management groups managed by customers and other interested parties that would function actively throughout the 20-year contract period. These groups would not form and dissolve with each rate case, but rather would provide long-term stable membership for maximum effectiveness.

## **IX. Dispute Resolution**

### **A. PPC Proposal**

See VIII.A, above.

### **B. BPA Proposal**

The BPA takes the position that its Administrator is limited by law regarding decisions he/she can delegate. For example, BPA cannot engage in binding arbitration over matters such as setting or implementing rates. There are highly factual issues that BPA believes can be resolved effectively through mechanisms such as mediation and arbitration, so long as the arbitration is open to other customers who may be affected by the outcome.

The BPA also believes the region should explore other alternatives such as non-binding arbitration and third-party fact finders.

## **CONCLUSION**

Last Fall, the BPA invited 51 people to participate in a Principals' workshop group: 28 public agency managers, six IOU representatives, five customer group heads; four public purpose representatives, one Northwest Power and Conservation Council member from each of

the four participant states, two tribal representatives, a representative from the Oregon Public Utility Commission and a staff member from the Washington governor's office. A Technical group met frequently to decide how to approach primary issues discussed in the BPA Proposal.

The initial Regional Dialogue Technical Group and Principals Management Group meetings concluded in mid-December. At the final meeting, the Principals decided to extend the collaborative process for approximately two months. In mid-February the Principals will meet one final time.

BPA wants to publish a formal policy proposal in the Federal Register in early 2006, followed by a comment period and a final record of decision. Once the record of decision is in place, BPA will begin negotiating new 20-year contracts with customers. BPA estimates that some new long-term contracts will be negotiated and become effective as early as the fall of 2008.