



Sharing the Water

Bonneville Power Administration works to allocate low-cost hydropower generated at federal dams

By Pam Blair

Steve Wright, administrator of the Bonneville Power Administration (BPA), is a man with a mission. His goal is to preserve the resources the region has come to rely on since the network of 31 federal dams was developed in the Columbia River Basin.

To do that, Wright and his staff are engaged in a “regional dialogue” with public and private utilities, and direct service industrial customers that buy power directly from BPA.

The mission: divide up the resources managed by BPA among the agency’s customers.

How that will be accomplished



is still being discussed. However, when completed, each utility’s share of the federal system is expected to be outlined in 20-year contracts.

Wright’s deadline is aggressive. He wants signed contracts in place by the end of the year, before a new president takes office. Contracts will take effect in 2012, when existing power supply agreements expire.

“The key to preserving the existing asset base is long-term contracts,” Wright insisted in a speech to Oregon People’s Utility District (PUD) directors in October.

“We have an opportunity to preserve cost-based rates,” he said. “Long-term contracts create clarity about how much load you have so you can plan for load growth.”

Unlike the past—when public power systems simply turned to BPA to serve their entire electrical loads—utilities will face complex decisions when it comes to acquiring all of the power they need.

BPA will remain an option, but for growing utilities, that is expected to come at a higher price.

A Changing Landscape

The region faces a problem of supply and demand. BPA will not have enough low-cost hydropower to satisfy the needs of its customers.

Rather than go out and buy all of the power needed, and average the costs—as is done now—BPA plans to offer a two-tier rate structure.

Tier 1 power would be supplied by the existing federal system, with

allocations based on a utility's historic needs. It is expected to cover each utility's load as of 2010—or some other fixed date—at cost-based rates.

Tier 2 power would be purchased by BPA and sold at market rates to cover utilities' load growth.

"You will have choices whether to buy from us," Wright said in October. "We believe a significant number of customers will choose to buy Tier 2 from us, and that only a few will buy no Tier 2 from us."

Utilities that historically have relied on BPA for all of their power will have other options.

"Bonneville is encouraging infrastructure development by utilities," said John Prescott, president and chief executive officer of PNGC Power. "We are setting up a business model and strategy to turn this change into a real opportunity."

PNGC Power—a generation and transmission cooperative owned by 15 distribution co-ops—has talked to a number of utilities and potential new members, Prescott said.

"We are looking at a number of different resource strategies and joint ventures," he said. "This region has benefited from the federal system, but it is essentially tapped out, and could degrade further because of competing demands.

I foresee a reduction in power coming from Bonneville. The goal is to see that low-cost and stable rates continue into the future."

Motivated to Act Now

The BPA administrator shares a similar goal.

"The risk of losing the benefits of our hydro system are huge," Wright said.

"Why? The high federal deficit and the difference between Bonneville and market-based rates."



BPA Administrator Steve Wright

The region was headed toward a supply deficit in 2010, but due to utilities' growing loads, that's coming even quicker, Wright noted.

He said he has the authority from the Bush administration to offer the contracts, and will push hard to complete them this year. He hopes to have drafts circulating in April, with contracts in place by August.

"It's a risk management issue," Wright explained. "The risk of delay is we have a large national deficit and a climate change debate."

That makes selling the region's assets elsewhere—or charging market rates—attractive options.

"The risk of going fast is we don't get it quite right," Wright said. "I will take that over shifting the value of the system outside the region."

Timing is a concern, "but a balance needs to be struck between getting things done and doing it right," said Scott Corwin, executive director of the Public Power Council.

"We need to move expeditiously, but we can't proceed at the expense of having contracts that are not workable," Corwin added.

Figuring Out the Details

How much power each utility gets has yet to be decided.

"Equity is at the core of these questions—and how do you measure equity?" Wright asked.

The debate could go on forever, but "we need to move on and develop contracts," he said.

Corwin noted many outstanding issues remain.

"We've made a lot of progress, but we have yet to start the rate case for the tiered rate methodology," he said. "We haven't determined how conservation fits in, or the proposal for direct service industries. It's a Herculean task. It's going to be a scramble." ■

Residential Exchange Settlement Critical

One roadblock to developing 20-year power supply contracts with the region's utilities is settlement of the residential exchange program.

In May, the U.S. Ninth Circuit Court of Appeals struck down settlements the Bonneville Power Administration (BPA) signed with investor-owned utilities (IOUs) in 2000.

The court said BPA violated the law when it included the costs of the settlements in rates paid by publicly owned utilities.

As part of the Northwest Power Act—signed into law in 1980—"benefits" of the federal system were to be "exchanged" at cost to residential and small-farm customers of IOUs which, at that time, had higher rates than public utilities.

The act included a provision ensuring public utilities would not pay higher rates because of residential exchange benefits.

Although payments to the IOUs are on hold, public utilities continue to pay \$28 million a month to fund the settlements. BPA is proposing interim payments this year of \$191 million to consumer-owned utilities and \$131 million to IOUs, with adjustments to be made when formal rate processes are done and a residential exchange level is set.

"A lot of our members would like to see rate relief sooner rather than later," said Scott Corwin, executive director of the Public Power Council.

However, long-term resolution of the issue will take time.

"We won't offer contracts to the publics until we get the residential exchange resolved," BPA Administrator Steve Wright said. ■