

To: BPA via the BPA website: [www.bpa.gov/comment](http://www.bpa.gov/comment)  
From: Northwest Requirements Utilities  
Date: November 30, 2009  
Re: NRU Comments on BPA's 2009 Draft Resource Program

Northwest Requirement Utilities (NRU) offers the following comments on BPA's 2009 Draft Resource Program. NRU is a trade association representing the interests of 50 of BPA's load following customers. NRU's members currently rely almost completely upon BPA for power supply and transmission services. In addition, NRU's membership makes use of BPA's conservation programs to help meet the region's energy efficiency objectives.

In Fiscal Year (FY) 2012 these utilities will be moving into a new era under the Regional Dialogue contracts. In the future, BPA will provide service for load growth above utilities' High Water Marks (HWM) at the cost of that service. Utilities will also be able to provide for their own load growth service using non-federal resources. The completion of the Regional Dialogue contracts, the Tiered Rates Methodology and other items provides the platform on which BPA and its customers can move forward to effectively serve the electricity needs of the region. Our interests are in maintaining the existing low cost and non-carbon emitting federal power supply base, developing incremental power supply options that meet our load growth needs and ensuring that the transmission system will meet our needs for reliably getting power to load.

We are also very interested in the cost implications that underlay the decisions highlighted by the Resource Program. To the extent that BPA will provide for the load growth of our membership we want to make sure their needs are met at a reasonable cost. Where the members of NRU choose other sources of above HWM power we need to make sure that the costs of balancing reserves and monthly and seasonal purchases and augmentation are reasonable so that the value of BPA power supply is preserved over the long term. The Draft Resource Program does a very good job of describing the power system and highlighting these issue areas. NRU staff also participated in the development of the Public Power Council's comments and NRU supports those comments.

Our key areas of concern are as follows:

- BPA needs to synchronize its next Resource Program and related items, such as the issuance of term sheets for Vintage rates per the Regional Dialogue contracts, to align with and better inform the power supply decisions customers have to make in September 2011 regarding the FY 2015-2019 purchase period.
- BPA and its customers need to work out a protocol for accommodating customers' resource acquisition preferences. BPA needs to develop a timely process and protocol for evaluating those resources to be offered at a Vintage rate and/or included in Load Growth Rate.
- BPA's reliance on conservation as its first choice allows it to substantially fill the gap between resources and load. NRU membership supports the acquisition of all cost-effective conservation. However, utilities will need assistance from BPA to make this a reality. Also, BPA should run sensitivity analyses of whether BPA's customers will fully achieve BPA's share of the Council's conservation target, and what impact that may have on BPA's load/resource balance.

- We support BPA’s decision to rely on market purchases to fill in the gap between loads and resources, but ask BPA to reassess this reliance on a regular basis in light of the volatile prices in the power market. Further, BPA should develop a long-term risk management policy for resource development.
- The Final 2009 Resource Program needs to be updated for the November 1, 2009 load placement decisions for FY 2012-2014 of its customers, updated load forecasts, and 30 minute persistence for the wind fleet.
- We would like to see more emphasis on maintenance of, and additions to, generation output at existing hydro facilities; also, pumped storage needs additional emphasis in the plan.
- The Resource Program should address potential impacts to customers and the BPA balancing authority area (BAA) given the increased renewable portfolio requirements in California and the expected increase in amount of intermittent generation integrated into BPA’s BAA.
- The most significant single uncertainty in the Draft Resource Program is the potential for service to Alcoa and Columbia Falls Aluminum Company (CFAC). This uncertainty should be removed by including an explicit assumption that any service to Alcoa and CFAC will be accompanied by a resource or market purchase tied directly to that load with all of the costs and risks of that purchase borne by that load.

Below are detailed comments on the Draft Resource Program.

### **Reliance on Short Term Market Purchases**

The Draft Resource Program relies on short term market purchases for up to 1,000 megawatts in the winter and up to 500 megawatts in the summer. BPA states this decision is “prudent given the current wholesale power market in the Western Interconnection.” (page 41) Relying on short term market purchases is a prudent strategy at this time given the circumstances, but we ask that BPA proceed with some caution. Reliance on short term market purchases is risky, particularly from the perspective of NRU’s members which are load following customers. As we have seen in the recent past (i.e., the 2000-2001 energy crisis), market prices can swing widely and unpredictably. When setting rates, BPA includes risk premiums to cover potentially volatile market price swings. This means load following customers will pay for overreliance on market purchases. NRU notes that other utilities’ integrated resource plans also rely on short term market purchases during the winter and summer, and this fact heightens our concern. Reliance on market purchases from other utilities in the power market will drive up market prices. With customer input, BPA needs to carefully evaluate when and how it will procure longer term resources rather than rely solely on short term market purchases.

### **Consideration and Evaluation of Resources**

The Draft Resource Program is noteworthy in that it does not identify an immediate need for resource acquisitions other than short term market purchases. However, it still provides a useful description and analysis of other resource options. BPA uses the Council’s levelized cost estimates as a starting point, but then it fine tunes its analysis by taking into account a host of other factors, such as effects on BPA’s rates, operating flexibility and ability to provide firm capacity in addition to energy.

The hydro system is a very valuable resource; enhancing and preserving its output is important, particularly in a world of increasing concerns over carbon emissions. We are pleased to see BPA

working with the Corps and Bureau to evaluate enhancements to increase the generation efficiency and capacity at hydro facilities and also that BPA includes pumped hydro storage in its analyses. NRU encourages further work in these areas.

The Draft Resource Program provides an interesting discussion of a potential need for carbon emitting resources for balancing reserves to integrate wind and raises the issue of whether acquisition of a carbon emitting resource will “brown” BPA’s entire resource portfolio. This is an important consideration that needs careful thought in collaboration with BPA’s customers. Given that BPA attempts to follow the principles of cost causation to the extent possible, particularly as we move into tiered rates, BPA should likewise assign costs attributable to resources acquired to integrate intermittent resources to those utilizing BPA's integration services.

The Resource Program needs to explicitly identify the purpose of each (potential) resource acquisition. For example, is the resource being acquired to serve preference loads (and if so, at which rate) or for other purposes, such as balancing reserves. If the resource is being acquired for several purposes, then BPA needs to identify the relative proportion of the resource for each use. Please see the next section, “Customer Choice,” for further thoughts on resource acquisitions for Tier 2 service.

The Resource Program should outline a transparent process for acquiring resources; this process needs to include substantial customer input. Additionally, BPA should develop a long-term risk management policy for resource development.

### **Customer Choice**

A basic tenet of Regional Dialogue is “customer choice.” Under tiered rates, customers have a choice in how they serve their above HWM load—with BPA Tier 2 rates or with non-federal resources or some combination. In the development of Regional Dialogue, BPA and customers created a load growth rate, a shared rate plan, a short term rate, and the potential for a number of vintage rates in order to provide customers that decide to use Tier 2 rates with a number of choices. It is vital that the BPA Resource Program acknowledge and incorporate the Agency’s goal of providing choice to customers.

BPA needs to develop a timely and well synchronized public process for developing and offering vintage rates on an ongoing basis. An important part of this process will be customer involvement. BPA needs to actively seek input from customers on what type of vintage rates BPA should offer. A number of customers fall under Washington State’s Initiative 937 and need to acquire renewable resources to meet their state’s renewable portfolio mandates. Some customers might be interested in locking down the cost of a resource to maintain more stable or known rates over time. Purchasing a carbon free vintage rate to hedge against potential carbon limitations may be of interest to other customers. As important as customer involvement in this process is the timing of the process. Under their Regional Dialogue contracts, customers must decide how they will serve their above HWM load years in advance of actual power deliveries. Consequently, BPA must be in a position to offer vintage rates sufficiently prior to the time when customers must make their resource elections for a purchase period. In addition BPA should be able to offer vintage rates within a purchase period. Undoubtedly, BPA and its customers will need to work together to address issues such as how to manage the early acquisition of an attractive long term resource ahead of the beginning of a future purchase period.

Similarly, BPA needs to outline how it plans to serve the load growth rate. The concept behind the load growth rate is for BPA to acquire longer term resources. The costs of these resources are then included in the cost basis for that rate. It is reasonable for BPA to conclude that customers using the load growth rate anticipate that BPA will use a portfolio of resources, both with respect to duration of purchase and types of resources, for this service. BPA has firm commitments from customers to place their load growth in the load growth rate and can consequently acquire longer term resources to serve some significant portion of such load. By acquiring longer term resources, the rate should have more price stability than other BPA Tier 2 rate offerings, and BPA may be able to acquire resources with lower or known costs to hedge against potentially increasing market prices. While few megawatts are in the load growth rate for FY 2012-2013, forty-one load following customers have selected the load growth rate for future service.<sup>1</sup> One can assume that load served at the load growth rate will increase over time. A resource acquisition plan should be developed by BPA with customer input to guide future resource acquisitions in a sensible, planned fashion.

As the provider of Tier 2 priced power, BPA has an important role in analyzing and acquiring resources to serve the above HWM load of its customers. Just like all power providers, BPA, in conjunction with its customers, needs to outline how it will plan for and procure resources as well as seek customer involvement. This plan needs to recognize the different goals and circumstances under each type of rate. Some rates may be used to serve load growth; others may need to meet renewable resource requirements; still others may be used to “lock down” an attractive resource at an attractive price.

In addition to laying out general guidelines for resource procurement, BPA needs to provide such information in a timely manner. Customers need to know how BPA Tier 2 rates may meet their specific needs sufficiently prior to each notification deadline, as well as within each purchase period. The next notification deadline is September 30, 2011, when customers elect how they will serve above HWM load in FY 2015-2019. BPA needs to have protocols in place for selecting resources for inclusion in Tier 2 rate pools well in advance of September 2011. This will allow customers to make an informed choice between non-federal resources and BPA Tier 2 rates.

## **Conservation**

BPA assumes that it, “in partnership with its public utility customers, [BPA] will achieve the public power share of Northwest conservation called for in the Council’s draft Sixth Power Plan.” (page 42) NRU’s members are committed to pursuing all cost-effective conservation. However, there has been much debate within the region on the achievability of the Council’s conservation target (stated at 1,100-1,400 aMW in the draft Power Plan). Extensive analysis by conservation staffs of public power and BPA has indicated that a more reasonable, though still aggressive, goal would start at 1,000 aMW, rather than 1,100 aMW. The Council has recognized the numerous uncertainties associated with its target and has consequently called for an evaluation of the region’s progress in two years.

Conservation plays an important role in the BPA Resource Program as it delays the need to acquire additional generating resources. However, given the uncertainty in the region regarding the achievability of the Council’s conservation target, BPA should run sensitivity analyses on the implications on its load/resource balance if public power cannot achieve the target. The analysis should consider the

---

<sup>1</sup> Per BPA document “First Purchase Period Above-High Water Mark Customer Elections” dated November 12, 2009.

implications of conservation not occurring in the same time frames as assumed in the Council's draft Power Plan.

The statement that the "public power share of regional load is 42 percent, based on Council estimates of conservation potential for the service areas of BPA and its public utility customers" needs revision. (page 49) Based on the Council's regional load data, public power load does represent 42% of the regional load. BPA interprets the Northwest Power Act to say that BPA is responsible for achieving public power's share of regional load, including the load that BPA does not serve with PF-priced power. We believe this interpretation will need to be revised, particularly given the new world of tiered rates. Consequently, BPA should modify this statement by saying that the public power share of regional load is 42%, based on the Council's data of total regional load, and that BPA currently uses this percent to set its conservation target but is reviewing the appropriateness of using the 42% for future policy decisions.

### **Regular Updates to BPA's Resource Program**

We commend BPA for the hard work and detailed analysis that went into developing this Draft Resource Program. As we have described in these comments, BPA's resource acquisitions are extremely important to NRU members. Some have already opted into the load growth rate, others are interested in a renewable vintage rate, and still others are debating whether to procure non-federal resources or use Tier 2 rates to serve above HWM load. Thus, BPA needs to regularly update its Resource Program and related items, with final documents made available sufficiently prior to each notification deadline, so customers can make informed decisions regarding their above HWM load service. Customer input in selecting resources, for both Tier 2 rates and other services, such as balancing reserves, is critical.

### **Other**

#### *Carbon Assumptions Used In Scenario Tree Approach*

In Section 2.2, Methodology and Basic Assumptions, BPA describes the three load growth scenarios BPA assumed in its analyses. BPA also used three different CO<sub>2</sub> pricing assumptions. The "Recovery and Modest Growth" scenario includes three CO<sub>2</sub> price assumptions: high, medium and low. It makes sense to include three different price assumptions, given the uncertainties related to CO<sub>2</sub> pricing and timing. However, under the "Boom" and "Prolonged Recession" scenarios, BPA only considers one level of CO<sub>2</sub> pricing. It is not clear to us whether economic recovery and CO<sub>2</sub> pricing are correlated. Therefore, we would recommend that BPA includes all three CO<sub>2</sub> price assumptions in each economic scenario.

#### *California's Renewable Portfolio Standards*

The Resource Program should address potential impacts to customers and the BPA balancing area authority given the increased renewable portfolio requirements in California and the expected increase in amount of intermittent generation integrated into BPA's BAA.

#### *Service to Alcoa and CFAC*

The most significant single uncertainty in the Draft Resource Program is the potential for service to Alcoa and CFAC. This uncertainty is solely of BPA's making. Public power has been adamant that service to the DSIs should pose no risk on BPA's other customers. This uncertainty should be removed by including an explicit assumption that any service to Alcoa and CFAC will be accompanied by a

resource or market purchase tied directly to that load with all of the costs and risks of that purchase borne by that load.

## **Conclusion**

A tremendous amount has been accomplished in the Regional Dialogue process. Now it is time to focus our attention on the means to deliver on the objectives of the Regional Dialogue effort. Overall, the Draft Resource Program was well written and provides a succinct description of complicated topics. For the Final Resource Program, we urge BPA to outline how it will manage the risks associated with relying on short term market purchases; develop a protocol for evaluation (including extensive customer involvement) for resource acquisitions for Tier 2 service and other services; provide for a regular updating of the Resource Program and related items which will provide timely and sufficient information needed by customers prior to the time they are required to make resource decisions; and address the other issues as described above.

Very truly yours,

A handwritten signature in black ink that reads "John D. Saven". The signature is written in a cursive style with a long, sweeping underline.

John D. Saven, CEO  
Northwest Requirements Utilities

CC: Members of NRU