

Proposed Increase to Residential Exchange Settlement Benefits and Allocation of Residential Exchange Settlement Benefits among Pacific Northwest Investor-Owned Utilities

INTRODUCTION

BPA's Power Subscription Strategy (Subscription Strategy) proposes settlements of the Residential Exchange Program (also referred to as "Program") with regional investor-owned utilities (IOUs). The proposed settlements are based on benefits equivalent to power sales at the Residential Load (RL-02) rate or the PF Exchange Subscription rate: 1800 aMW for the FY2002-2006 period, and 2200 aMW for the FY2007-2011 period. (The rates for the FY2002-2006 period are currently being developed in BPA's FY2002-2006 rate case.) This request for public comment regards two issues: (1) whether the amount of the settlement should be increased by 100 aMW from 1800 aMW to 1900 aMW, and (2) the manner in which the settlement amounts should be allocated among the individual IOUs.

After receiving public comment on the proposed increase in the settlement benefits, BPA will issue a decision on the proposed increase at the time a decision is made on other proposed revisions to the Subscription Strategy. After receiving public comment on the proposed allocation of settlement benefits among the IOUs, BPA will determine an allocation that will be taken into the negotiations of the proposed Residential Exchange Program settlements. The proposed allocation resulting from the current public comment process will not be a final action. Rather, the allocation will become part of the issues that will be addressed in a later public process conducted by BPA regarding the Residential Exchange Program settlement agreements, culminating in issuance of a Record of Decision.

Section 5(c) of the Northwest Power Act

Section 5(c) of the Northwest Power Act established the Residential Exchange Program. 16 U.S.C. 839c(c). Under the Residential Exchange Program, a Pacific Northwest utility (either a public utility or an investor-owned utility) may offer to sell power to BPA at the utility's average system cost (ASC). BPA purchases such power and, in exchange, sells the same amount of power to the utility at BPA's PF Exchange rate. The amount of the power exchanged equals the utility's residential and small farm load. In past practice, no actual power sales have taken place. Instead, BPA provided monetary benefits to the utility based on the difference between the utility's ASC and the applicable PF Exchange Rate multiplied by the utility's residential load. These monetary benefits must be passed through directly to the utility's residential and small farm consumers. While Residential Exchange benefits have previously been monetary, the Northwest Power Act also provides for the sale of actual power to exchanging utilities in specific circumstances. Pursuant to section 5(c)(5) of the Northwest Power Act, in lieu of purchasing any amount of electric power offered by an exchanging utility, the Administrator may acquire an

equivalent amount of electric power from other sources to replace power sold to the utility as part of an exchange sale. However, the cost of the acquisition must be less than the cost of purchasing the electric power offered by the utility. In these circumstances, BPA acquires power from an in lieu resource and sells actual power to the exchanging utility.

The Residential Exchange Program has traditionally been implemented through Residential Purchase and Sale Agreements (RPSAs), which were executed in 1981. Between 1981 and the present, all of the RPSAs have been settled except for one, which is in “deemer” status. (Deemer status is where a utility sets its ASC equal to BPA’s PF Exchange rate and does not receive positive benefits but accrues a negative balance that must be worked off before resuming the receipt of positive benefits.) Regional utilities are eligible to participate in the Residential Exchange Program again beginning July 1, 2001, except for those utilities that have previously executed settlement agreements for longer terms.

Issues related to forecasts of the elements of the Residential Exchange Program are currently being discussed in BPA’s FY2002-2006 power rate case. For information about BPA’s power rate case, please go to BPA’s website at <http://www.bpa.gov/Power/psp/rates/ratecase/index.shtml>.

BPA’s Power Subscription Strategy

During the spring and summer of 1998, BPA conducted extensive public meetings with all interested parties regarding the development of a “Power Subscription Strategy.” At the conclusion of these lengthy discussions, on September 18, 1998, BPA released a “Power Subscription Strategy Proposal” for public review. During the comment period BPA received nearly 200 responses to the proposal comprising nearly 600 pages of comments. After review and analysis of these comments, BPA published its final “Power Subscription Strategy” on December 21, 1998. See “Power Subscription Strategy” and “Power Subscription Strategy, Administrator’s Record of Decision.” The purpose of the Subscription Strategy is to enable the people of the Pacific Northwest to share the benefits of the Federal Columbia River Power System after 2001 while retaining those benefits within the region for future generations.

The Subscription Strategy also addresses how those who receive the benefits of the region’s low-cost federal power should share a corresponding measure of the risks. The Subscription Strategy seeks to implement the subscription concept created by the Comprehensive Review in 1996 through contracts for the sale of power and the distribution of federal power benefits in the deregulated wholesale electricity market. The success of the Subscription process is fundamental to BPA’s overall business purpose to provide public benefits to the Northwest through commercially successful businesses.

The Subscription Strategy is premised on BPA's partnership with the people of the Pacific Northwest. BPA is dedicated to reflecting their values, to providing them benefits and to expanding and spreading the value of the Columbia River throughout the region. In this respect, the Strategy has four goals:

- (1) Spread the benefits of the Federal Columbia River Power System as broadly as possible, with special attention given to the residential and rural customers of the region;
- (2) Avoid rate increases through a creative and businesslike response to markets and additional aggressive cost reductions;
- (3) Allow BPA to fulfill its fish and wildlife obligations while assuring a high probability of U.S. Treasury payment; and
- (4) Provide market incentives for the development of conservation and renewables as part of a broader BPA leadership role in the regional effort to capture the value of these and other emerging technologies.

One element the Subscription Strategy proposes is a settlement of the Residential Exchange Program for regional IOUs for the post-2001 period. The Strategy proposes that IOUs may agree to a settlement of the Residential Exchange Program in which they would be able to receive benefits equivalent to a purchase of a specified amount of power under Subscription for their residential and small farm consumers at a rate expected to be approximately equivalent to the PF Preference rate. Under the proposed settlement, residential and small farm loads of the IOUs would be assured access to the equivalent of 1,800 aMW of federal power for the FY2002-2006 period and 2,200 aMW of federal power for the FY2007-2011 period.

BPA will set the physical and financial components of the Subscription amount, by year, in the negotiated Subscription settlement contracts. Any cash payment will reflect the difference between the market price of power forecast in the rate case and the rate used to make such Subscription sales. The actual power deliveries for these loads will be in equal hourly amounts over the period.

The Subscription Strategy proposes that BPA will offer five-year and 10-year Subscription settlement contracts for the IOUs. Under both contracts, the Subscription Strategy proposes that BPA will offer and guarantee 1,800 aMW of power and/or financial benefits for the FY2002-2006 period. At least 1,000 aMW will be met with actual BPA power deliveries. The remainder may be provided through either a financial arrangement or additional power deliveries, depending on which approach is most cost-effective for BPA. The IOUs' settlement of rights to request Residential Exchange Program benefits under section 5(c) of the Northwest Power Act will be in effect until the end of the contract term.

Under the 10-year contract, in addition to the benefits provided during the first five years, BPA proposes to offer and guarantee 2,200 aMW of power or financial benefits for the FY2007-2011 period. BPA intends for this 2,200 aMW to be comprised solely of power

deliveries. The IOUs' settlement of rights to request Residential Exchange Program benefits under section 5(c) will be in effect until the end of the 10-year term of the contract. In the event of reduction of federal system capability and/or the recall of power to serve its public preference customers during the terms of the five-year and 10-year contracts, BPA will either provide monetary compensation or purchase power to guarantee power deliveries.

In summary, residential and small farm loads of the IOUs may receive benefits from the federal system through one of two ways. An IOU may participate in the established Residential Exchange Program or it may participate in a settlement of the Program through Subscription. If an IOU chooses to request Residential Exchange Program benefits under section 5(c), then the Subscription settlement amount for all the IOUs would be reduced by the amount that would have gone to the exchanging utility.

Issues related to rates for power sales under the proposed settlements, as well as the forecast market price of power, are currently being discussed in BPA's power rate case. For information about BPA's power rate case, please go to BPA's website at <http://www.bpa.gov/Power/psp/rates/ratecase/index.shtml>.

Ensuring Benefits to the Residential and Small Farm Consumers

BPA has an obligation to ensure that the benefits of the Residential Exchange settlements are provided to the intended recipients – the residential and small farm consumers of regional IOUs. For this reason, the Subscription contracts with IOUs will include a provision permitting BPA to review the manner in which these benefits are provided to the intended beneficiaries.

Also, the Subscription Strategy states that Subscription settlement benefits (both the physical and financial components) will be transferable, under the same general terms and conditions as the Subscription purchase by the original IOU, to an eligible entity that serves the residential and small farm load. BPA intends that a provision for assignment in the Subscription contracts will provide the IOUs and state regulatory agencies with sufficient flexibility to accomplish this goal.

The consumer bills of participating IOUs will designate “Benefits of the Federal Columbia River Power System Provided by the Bonneville Power Administration” to describe the amount of benefits their consumers receive.

Allocation of the Settlement Amounts

In the Subscription Strategy, BPA notes the intent to request comments from interested parties regarding the amounts of Subscription settlement benefits that should be provided to individual IOUs. BPA also notes that the four Northwest state utility commissions (Commissions) indicated that they would collaborate on an allocation recommendation. After review of all comments, BPA will determine the appropriate amounts to be allocated to the individual IOUs.

It is important to note that the purpose of this proceeding is to develop an allocation proposal that will be taken into the negotiations for the settlement agreements. Therefore, BPA's determination at the conclusion of the public comment process will not be a final action. BPA will conduct a separate public process on the proposed settlement agreements. This later forum will be where parties can direct their comments regarding whether BPA should enter into the proposed settlement agreements, whether the proposed settlements are reasonable, or any other issue regarding the proposed settlements.

ISSUES FOR PUBLIC COMMENT

Increasing the Settlement Amount from 1800 aMW to 1900 aMW for the FY2002-FY2006 Period

As noted previously, the Subscription Strategy describes that BPA will offer and guarantee 1,800 aMW of power and/or financial benefits for the FY2002-2006 period. The four Northwest state utility commissions (Commissions), in a letter dated July 23, 1999, requested that BPA increase the amount of the settlement to 1900 aMW for the FY2002- 2006 period. This request was made in order for the Commissions to arrive at a joint recommendation for allocating the settlement benefits for both the FY2002-2006 and FY2007-2011 periods. BPA is proposing to agree to increase the settlement amount to meet the Commission's request as long as BPA's pledge not to increase the average PF rate over present levels can be met; the increase does not require BPA to reduce its Treasury Payment Probability; the increase does not require a change in proposed sales to the DSIs; and, there is no impact from the increase on BPA's ability to meet its fish and wildlife commitments. BPA is seeking comment on the proposal to increase the settlement by 100 aMW as requested by the Commissions.

Allocation Proposal

As noted above, BPA solicited the Commissions' views on the proposed allocation of settlement benefits. This was appropriate because the Commissions have traditionally been responsible for establishing retail electric rates for residential consumers of the regional IOUs', including the credit applied to those rates to reflect benefits of the Residential Exchange Program as determined by BPA. The Commissions also have a statutory responsibility to the residential consumers of the IOUs in their particular state jurisdiction. Furthermore, because of these responsibilities, a joint recommendation by

the Commissions would likely reflect a fair allocation of benefits among the residential consumers of the Northwest states and would enhance the likelihood of BPA delivering the benefits in a way that will work for each state and its consumers.

The Commissions collaborated and submitted a joint recommendation on the proposed allocation of the settlement benefits. They noted that their recommendation reflects many different considerations, including the amount of residential and small farm load eligible for the Residential Exchange, the historical provision of Residential Exchange benefits, the Exchange benefits received in the last five-year period ending October 1, 2001, rate impacts on qualifying customers, and the individual needs and objectives of each state.

Below is the allocation that was proposed by the Commissions. BPA believes that this proposal is a reasonable approach upon which to take public comment.

	Amount of Settlement (aMW) FY2002-2006	Amount of Settlement (aMW) FY2007-2011
Avista Corp. (1)	90	149
Idaho Power Company (1)	120	225
Montana Power Company	24	28
PacifiCorp (Total)	476	590
<i>PacifiCorp (UP&L)</i>	140	140
<i>PacifiCorp (PP&L – WA) (1)</i>	83	109
<i>PacifiCorp (UP&L – OR) (1)</i>	253	341
Portland General Electric	490	560
Puget Sound Energy	700	648
Total	1900	2200

- (1) The allocation of benefits among the states served by these multi-state utilities will be based on the forecasts of the respective state residential and small farm loads at the time the IOU signs its settlement agreement.

COMMENT OPPORTUNITY

Comments on the Proposed Increase to Residential Exchange Settlement Benefits and Allocation of Residential Exchange Settlement Benefits among Pacific Northwest Investor-Owned Utilities will be accepted through close of business on January 7, 2000.

Written comments should be sent to:

Bonneville Power Administration

P.O. Box 12999

Portland, Oregon 97232

You can also send comments electronically to: comment@bpa.gov

Additional copies of this proposal may be obtained by calling BPA's Public Information Office at 1-800-622-4520 or by contacting your BPA Account Executive. This proposal is also available on BPA's Subscription website: <http://www.bpa.gov/Power/subscription>

If you have specific questions on this proposal, please contact the Project Manager, Kimberly Leathley, at 503-230-3163.