



Regionalization of Bonneville Power Administration

... Next 2 Articles ...

world's greatest renewable electricity assets: the hydropower generated on the Columbia and Snake rivers and marketed by the Bonneville Power Administration (BPA). But we cannot take this asset for granted.

The region is in great jeopardy of losing control over the Columbia River water system, the Northwest states' greatest common asset. California's problems with restructuring its electricity mar-

The state understandably wonders how it could harness some of that power to solve its own energy supply shortage.

Market Rates

Another threat arises from the congressional push to bring market rates into the Northwest. The Northeast-Midwest Congressional Coalition boasts 117 members in the House of Representatives who represent constituents from the states located in the Northeast and Midwest regions. Its counterpart in the Senate, the Northeast-Midwest

Competitive Market Realities

The chair of the U.S. Senate Energy Committee, Senator Jeff Bingaman, D-N.M., has already outlined his ideas for comprehensive electricity legislation. His goals include Federal Energy Regulatory Commission (FERC) jurisdiction over transmission and system reliability and the encouragement of competitive electricity markets. Some will argue that forcing the BPA to charge market rates instead of cost-based rates could help develop this competitive market.

Last winter, Northwest residents watched California's unfolding energy crisis as if it were a Hollywood soap opera. It had all the archetypal characters: a strong-willed governor who threatened energy suppliers with legal action, portrayals of electricity marketers as "bad guys" in black hats, and ordinary citizens plunged into darkness as blackouts rolled through the state. Every day for months the state to our south struggled to keep the lights on. Meanwhile, Northwest residents watched, fascinated, as we struggled to balance our power needs with the water used to satisfy them.

In response to the crisis, California is now working to build and update power plants. The state hopes to ensure that supply matches the increasing demand for electricity spurred by a growing population and technology industry. The solution to California's crisis is also a good policy for Oregon. Both states must encourage energy development so that electricity supply matches our states' needs.

The Northwest has been spared California's current energy woes because we have one of the

kets have stimulated interest in other states about how this asset is utilized. Because electricity issues are so volatile right now, we could see a variety of bills come before Congress. Some would force the BPA to charge market rates instead of cost-based rates. Calls to privatize and sell the BPA to the highest bidder, such as a consortium of utilities from California, may be renewed. The BPA's charter to sell power first to consumer-owned utilities within the region could disappear with the stroke of a pen. Here is a sample of the pressures exerted on the Federal Columbia River Power System.

California

The California crisis has brought attention to the BPA and the low-cost power it markets.

Senate Coalition, has 36 senatorial members. Both coalitions receive staff support from the Northeast-Midwest Institute. These organizations have made it abundantly clear that one of their objectives is to equalize power rates to eliminate the Northwest's economic advantage and boost economic opportunity in the Rust Belt.

The mechanism is easy. With one legislative sentence, the BPA could be required to charge market rates, eliminating the biggest benefit of the system to the Northwest—cost-based rates. Not only would this put the Northwest on a more level competitive plane with the Northeast and Midwest; higher rates would also mean additional revenues would accumulate, which would trigger demands that the extra cash be paid to the U.S. Treasury.

In a system of retail competition, some power markets would allow a customer, even at the retail level, to choose a power supplier as they choose most other essential services. Two Northwest states, Montana and Oregon, have joined many others in allowing a measure of retail competition. The question of the BPA's appropriate role becomes more complex with the restructuring of retail markets, because retail choice makes the customer, not public and private utilities, responsible for resource choice. The BPA's authority limits it to marketing wholesale to utilities; it cannot market to end users. *(An exception to this is Direct Service Industries. For an explanation, see Steve Weiss' and Eric Redman's articles in this issue of Oregon's Future -ed.)* The 1980 Northwest Power

Regionalization of BPA:

An Idea Whose Time Has Come

by Senator Gene Derrler

Act has no statutory framework to determine how the BPA's power should be allocated in a deregulated system, where retail consumers select their utilities and utilities, in turn, may not be obligated to serve such consumers.

Debt Reduction

These threats will become more acute around 2011 when the BPA's debt on the two failed Washington Public Power Supply System nuclear power plant bonds begins to retire. Until these are paid off, the BPA's expenses will average from about \$1.8 billion to \$2 billion per year. By 2018, they will have dropped to approximately \$1.2 billion per year.

Market Activity

The BPA is also a threat to itself due to its activities in the energy market. In 1992, Congress set in motion federal legislation that allowed FERC to deregulate the wholesale power market. Creating competitive wholesale power markets provided the BPA with an opportunity to become an active participant in the market. However, because of the BPA's size, its actions have a significant impact on competitive markets in the West. Variability in the BPA's hydropower generation (a bad water year, like last year, compared to an average water year) can add about 3000 average megawatts (aMW) to the competitive marketplace. When this happens, the BPA becomes either a tremendous buyer or a tremendous seller. The BPA truly is the 800-pound gorilla and can skew the market simply by expressing interest in buying or selling.

When the BPA buys in the market, suppliers boost prices far higher than when many smaller purchasers buy the same amount of power. As a seller, the BPA has

the opposite effect on the market and prices decline far faster than if there were more diverse sellers. The pertinent public policy question is this: Is it appropriate for a federal agency to play in the market and compete against private businesses?

BPA Devotion

In a sense, the Northwest has loved the BPA to death. It is the supplier of choice in the region. It provides power for its traditional customers—public utilities and the region's aluminum companies—but now also supplies large metropolitan areas and others that can successfully argue the “public” nature of their energy use. Most recently, the BPA signed contracts for the city of Hermiston to leave PacifiCorp and become a municipal utility. Seattle's SeaTac Airport recently argued its public nature, and the BPA began supplying its power in October. Clearly, the BPA's function is changing when the agency begins providing power to both Harney Electric Cooperative and San Francisco's Bay Area Rapid Transit system.

Even more significantly, the distribution of the BPA's future benefits is not equitable when urban centers like Seattle, which has a rapidly growing population and economic base, are pitted against small rural towns, which have a relatively static economic base.

Oversubscription

The BPA is currently facing other problems. It cannot meet all its contractual obligations with its own supply. For example, during the last round of contract negotiations, the BPA oversubscribed contracts by nearly 3,000 aMW. As a result, the agency is now scrambling to provide the power

it agreed to supply. It has few options for doing so: it can augment its supply by acquiring power from a supplier, or it can curtail load through either contractual buy-back or simple appeals to voluntarily reduce consumption. Last year, as wholesale market prices skyrocketed, the BPA caused a significant load reduction by both asking its largest industrial customers—the Direct Service Industries—to idle for two years, and by pleading with its utility customers to reduce by 10 percent the loads placed on the BPA.

Discouraging Supply

Uncertainty regarding the BPA's role in meeting future regional load growth and how it will choose to allocate power makes it difficult for any developer to invest in new power plants. One of the fundamental reasons for this uncertainty is the conflict between the BPA's obligations under the 1980 Northwest Power

However, the Review, commissioned by the four Northwest governors, offered the opposite policy recommendation. It found that the BPA should not acquire new resources, but instead should concentrate its efforts on managing the current federal resources and controlling its costs. The Review had many reasons for making this recommendation: a sense that it was risky for the Treasury, a sense that it was an inappropriate role for the federal government in a more competitive wholesale marketplace, and a belief that the BPA had, in the past, been unsuccessful in augmenting its resources by building new supply.

Threats Produce Opportunity

To protect Columbia River power, we have before us a tremendous opportunity to look to the future and decide how best to defend the economic backbone of our region. The first step in

The BPA must no longer be an active participant in the market, thereby giving competitive wholesale and retail power markets the full opportunity to function.

Act and the recommendations of the 1996 Comprehensive Review of the Northwest Energy System (“Review”).

The Act requires the BPA to offer “requirements” contracts to all regional consumer-owned utilities. These contracts obligate the BPA to acquire sufficient resources to meet all the utilities' regional loads.

protecting the region's asset is for the BPA to extricate itself from the market. The only way to create a competitive market is for multiple sellers and buyers to find each other. Competition is hindered when a huge federal agency can sway transactions simply by expressing interest in making market purchases.

Regionalization of Bonneville Power Administration

... continued ...

The Review recommended eliminating the BPA's role as first-choice supplier to meet growing demand. It also recommended limiting the BPA's activity in the market. The one exception to this would be when a particular BPA customer under bilateral contracts agrees to bear all the risks, costs, and benefits of the resources acquired for them by Bonneville.

Always Be Prepared

Our Northwest congressional delegation must formulate a defensive strategy to protect the BPA asset for the region.

Although many cannot see beyond this issue, the primary purpose of restructuring the BPA is not redistribution of costs and benefits among various parties and states in the Northwest. The purpose is to make the federal assets in our region more secure and to enhance their value. The federal system can be made more secure by protecting it from congressional and administrative attacks, reducing the likelihood of divisive battles within the region, and by making its structure consistent with national policies that are changing the electric power industry.

For nearly three years, I have worked with regional decision-makers, including legislators,

governors, and congressional delegations, to develop a strategy to protect our low-cost power. Avoiding partisan stances, we have worked hard to develop a plan to preserve this power source for the Northwest region. I want to stress that this plan is a defensive strategy, to be used only if the BPA's cost-based power is threatened.

There are many ways to regionalize the BPA. A four-state compact could take over its management, or it could be turned into a consumer-owned cooperative. Additionally, the output of the dams could be locked into long-term "slice" contracts that would provide rights to the generating capability of the federal system. This energy issue is of vital importance to all four states and, while we have not decided on one management strategy, I think we can all agree that, in the long run, local control is better, more stable, and more equitable than federal control.

We have established a set of goals and principles to define the BPA problem and drive the analysis of its solutions. Our goals for any restructuring of the BPA are the following:

1. It must preserve the multi-purpose benefits of the federal Columbia River system for the Pacific Northwest and spread these benefits broadly and fairly among the region's citizens. Any BPA management plan must adhere to this goal or continue to suffer political pressure from inside and outside the region.
2. It must maintain the reliability, safety, and quality of elec-

tric service and promote efficient production, delivery, and use of electricity.

3. It must provide for the recovery of weakened, threatened, and endangered fish and wildlife in the Columbia River Basin, and maximize regional control over Northwest power and fish policies related to the Federal Columbia River Power System.
4. It must ensure that those who benefit from access to Columbia system power pay its costs.
5. It must ensure repayment of U.S. Treasury debt related to the Columbia and Snake River dams' construction.
6. The BPA must no longer be an active participant in the market, thereby giving competitive wholesale and retail power markets the full opportunity to function.

Any restructuring of the BPA will likely also need to address Columbia River governance. The power system is intertwined with environmental values and other benefits of the Columbia River. These values include habitat for native fish and wildlife and the multiple economic benefits of the dams including flood control, river navigation, recreation, and irrigation. Restructuring must address how to balance these many competing uses of the river.

Early last year, state legislators met with the four Northwest governors and agreed to continue developing the vision for a regionalized BPA. Unfortunately, we have not moved far and have been stymied by the fear that talk of "regionalization" will automatically begin the fight over who does and does not receive the

BPA power. Initiating an allocation fight is not the intent of this important discussion. Instead, we have to look beyond the regional skirmish over who "wins" more BPA power and who "loses" it. We must remind ourselves that the allocation issue becomes irrelevant, and we all lose, if the BPA is forced to charge market rates.

My personal goal is to give Northwest residents options for controlling this important asset and our collective destiny. I hope we can do this for our grandchildren and for all our Northwest families and communities. This is just the beginning of the necessary work. It will take a tremendous effort by all four states' legislatures, governors, and communities to make this happen. However, in the end, our region will be stronger.



Republican Senator Gene Derfler of Salem is the Oregon State Legislature's Senate President. He has worked on energy issues in the legislature for the past three sessions, fighting to encourage competition for the benefit of retail customers, championing siting of new generation, and calling for the regionalization of the Bonneville Power Administration.