ADMINISTRATOR'S RECORD OF DECISION

Temporary Small Resource Policy

INTRODUCTION

The Bonneville Power Administration (BPA) is establishing a Temporary Small Resource Policy (Policy) as an incentive to utility customers to use small resources to serve a portion of their electricity needs, reducing firm load on BPA and to also use such resources to help alleviate the West Coast power emergency. The West Coast is in the midst of a power emergency caused by a demand for electricity that is often greater than its supply and record high wholesale market prices. This Policy is a one-time, short-term response to the West Coast power emergency and is one of many measures BPA is undertaking. BPA and the Pacific Northwest are facing severe conditions during the next 12 to 15 months:

- new Subscription contracts have increased customers' load requirements on BPA, so BPA needs to buy more power;

- the Northwest drought means BPA faces low water conditions and has less hydropower, so BPA and its customers must plan to buy even more power; and

- California's market conditions have driven up the purchase price of market power to unprecedented levels.

This Policy would allow the temporary use of short-term resources by BPA customers to help meet their loads and to relieve immediate supply needs on the West Coast. It is intended to be an interim measure that helps bridge the gap until new long-term resources are available. Implementation of this Policy would conform to BPA's market-driven approach for participation in the increasingly competitive electric power market.

The decision to adopt this Policy is consistent with BPA's Business Plan, the Business Plan Environmental Impact Statement (EIS) (DOE/EIS-0183, June 1995) and the Business Plan Record of Decision (ROD) (August 15, 1995). In response to a need for sound policy to guide its business direction under changing market conditions, BPA explored six alternative plans of action in its Business Plan EIS. The six alternatives were: Status Quo (No Action), BPA Influence, Market-Driven, Maximize Financial Returns, Minimal BPA, and Short-Term Marketing.

The Business Plan EIS examined each of these six alternatives under two widely differing hydro-operating scenarios developed in a parallel environmental process (the Columbia River System Operation Review (SOR)). The SOR determined the operating requirements necessary to serve the multiple purposes of the Federal hydro facilities in the Columbia River Basin. The decisions about operating requirements continually

define the power operation for BPA power transactions, including this need for a temporary small generation policy to reduce load requirements and costs to BPA.

In the Business Plan ROD, the BPA Administrator selected the Market-Driven alternative. Although the Status Quo and the BPA Influence alternatives were the environmentally preferred alternatives, the differences among alternatives in total environmental impacts were relatively small. Other business aspects, including loads and rates, showed greater variation among the alternatives. The Market-Driven alternative strikes a balance between marketing and environmental concerns. It also helps BPA to ensure the financial strength necessary to maintain a high level of support for public service benefits such as energy conservation and fish and wildlife mitigation and recovery activities.

The Business Plan EIS was intended to support a number of decisions (Business Plan EIS, Section 1.4.2). The Business Plan EIS and ROD also documented a strategy for making these subsequent decisions (Business Plan ROD, Figure 3, page 15). BPA's Temporary Small Resource Policy is one of these subsequent decisions and the subject of this tiered ROD. BPA reviewed the Business Plan EIS to ensure the Temporary Small Resource Policy was adequately covered within its scope and that it was appropriate to issue a tiered ROD (Business Plan EIS, Section 1.4.1 and Business Plan ROD, page 1). This tiered ROD, which summarizes and incorporates information from the Business Plan ROD, demonstrates this decision is within the scope of the Business Plan EIS and ROD. This ROD describes the specific information applicable to the decision on BPA's Temporary Small Resource Policy, and provides a summary of the environmental impacts associated with the decision with reference to appropriate sections of the Business Plan EIS and Business Plan ROD.

In addition, BPA decided in its Business Plan ROD (page 15) to apply as many of the example mitigation response strategies for decreasing spending, increasing revenues, and transferring costs necessary when BPA’s costs and revenues approach an imbalance. These mitigation strategies, or equivalents, are to be implemented in a way to enhance BPA’s ability to help balance revenues and costs and meet its social and environmental obligations while remaining competitive in the changing electric utility market. The purpose of these response strategies is to fulfill BPA’s need for adaptive policies to enhance its ability to continue business and serve the public under a market-driven approach.

BACKGROUND

Under Section 2(2) of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act), BPA must assure an adequate, efficient, economical, and reliable power supply. BPA is to provide its power services consistent with sound business principles, as discussed in BPA’s Business Plan. In addition, Section 9(c) of the Northwest Power Act, based on certain factual determinations, requires BPA to reduce its firm power sales obligations to a customer that exports power outside the

region from its own resources. If the export does not meet the Section 9(c) standards, then BPA may only sell power that would otherwise be surplus, as a replacement for the exported power. Section 9(c) standards are discussed fully in the May 2000 Administrator's ROD on "Policy on Determining Net Requirements of Pacific Northwest Utility Customers Under Sections 5(b)(1) and 9(c) of the Northwest Power Act" (5b/9c Policy). This Policy clarifies their application to the unplanned, temporary small generation which customers may add during the energy emergency.

THE ENERGY EMERGENCY

Present conditions for the upcoming summer and operating year indicate that an adequate supply of power to meet load in the Northwest may not be available on a timely basis. Beginning this October, BPA is obligated to provide about 11,000 average megawatts (aMW) of electricity to its customers for a five-year period. This obligation exceeds BPA's generating resources. BPA has a projected need for the upcoming operating year to augment the Federal Base System by up to 3,000 aMW. Unless there is a significant change in power demand, BPA will have to buy the additional power in the very high-priced wholesale power market. This will drive up rates and cause serious social and economic consequences.

Several interrelated factors are substantially affecting BPA's ability to maintain its market viability and continue providing public benefits.

Low Water

Current estimates for this operating year are that flows through regional hydro projects will be less than 60 million acre-feet (MAF). If this occurs, BPA and its customers will face the second or third worst water volume flow conditions on record. Low water has a double adverse effect on BPA. First, low water means reduced generation and BPA must buy more power at market prices, increasing operating costs. Second, low water reduces BPA sales of surplus power, decreasing revenues.

High Demand

Customers executed new long-term power sales contracts with BPA as part of the Subscription process. BPA now has load obligations of approximately 11,000 megawatts (MW). This total is at least 3,000 MW higher than the generation available to BPA on an annual average basis for the upcoming five-year rate period. Moreover, electricity is in extremely short supply West Coast wide.

Financial Risks

Power available for sale in the volatile West Coast markets has run as high as $350-$450 per MW for purchases through September 2002. BPA's current financial reserves can only meet part of the 3,000-MW need at such prices. BPA's financial inability to pay for augmentation without revision to the Load-Based Cost Recovery Adjustment Charge to allow BPA to cover the costs of augmentation through substantial rate increases will have an adverse effect on system reliability. Constrained budgets also

threaten BPA's financial stability, jeopardizing payments to the U.S. Treasury, future power acquisitions, system maintenance, fish and wildlife mitigation, and conservation and renewable energy programs.

Reliability

BPA is particularly concerned about reliability issues during the next winter and spring. Northwest Power Planning Council (Council) studies indicate a 15-20 percent possibility that the region will be unable to meet load between now and October 1, 2002. Industry standards call a 5 percent possibility reasonable. The entire West Coast electricity industry is in crisis. The State of California is predicting rolling blackouts this summer if it is unable to get more power than appears to be available at a reasonable cost. California's shortage has bid up the market price of electricity to levels that were unthinkable eighteen months ago and, in some cases, required rolling blackouts to maintain that system's overall reliability.

ACTIONS TO MEET THE ENERGY EMERGENCY

States of Emergency

The Governors of both Oregon and Washington have each declared a state of energy emergency during 2001. These declarations relieve resource developers of state constraints in regard to siting and emissions for the duration of the emergency. Additional resources are being developed, but most will not be available for at least another year.

BPA Actions Underway

Increased demand, high market prices, low water conditions, precarious financial reserves, and reliability concerns have prompted BPA to search for ways to help reduce its load obligations and increase system reliability. BPA is undertaking a number of actions to help it and the region work through the energy emergency. BPA is:

- Obtaining load reductions by the different customer classes:
  - Direct Service Industries (DSIs) have executed contracts for a 75 percent load reduction;
  - Investor-owned Utilities (IOUs) have executed contracts for a 33 percent load reduction; and
  - Public body, cooperative, and Federal agency customers have been asked to reduce load by 10 percent.

- Bringing on renewable resources:
  - 34 MW of wind on line;
  - 425 MW of wind under consideration;
  - Request for Proposals was issued for an additional 1,000 MW, or more, of wind; and
  - 50 MW geothermal energy is underway.

- Pursuing different Conservation/Augmentation programs:
  - Vending Mizer;
  - Compact fluorescent lights;
  - Waste water treatment; and
  - Commercial lighting.

- Advancing in time the Conservation and Renewables Discount available to customers.

- Supporting custom conservation measures developed by public agency customers.

- Planning new transmission lines to ensure that electric power can be reliably delivered in the future.

Temporary Generation

In addition to the aggressive measures described above, BPA has proposed this Temporary Small Resource Policy. Many BPA customers have expressed an interest in installing short-term generating resources to help them and BPA get through the energy emergency. Some of these customers are using temporary small resources to meet summer 2001 loads, and will have the resources available for winter use and use in 2002 as well. Other customers have stated that they are willing to acquire such resources, but that the economics of generator leases and utility load shape virtually guarantee that not all the output of the resources will be applicable to utility system load. They would like to use such resources to serve their own loads and sell the excess output into the market for use by other utilities. This resource use would be over and above the other load reductions to which the customer has committed as other actions it will take. Customers know that their generation, which is excess to their own load needs, is subject to BPA's 5b/9c Policy, and may potentially result in a reduction of BPA's net requirements obligations to them.

BPA serves the net requirements loads of qualifying customers with Federal power from the Federal Columbia River Power System (FCRPS). Net requirements load is the difference between a utility's firm consumer load in the region and its firm resources dedicated to serve that load. Section 5(b)(1) of the Northwest Power Act requires that, if a utility uses a resource to serve its firm load, it must continue to do so. Section 9(c) requires that BPA determine whether it must reduce its power obligations sales when any customer's power is exported or sold outside the Pacific Northwest region by a utility.

If BPA's customers acquire the output of small temporary resources, they are concerned that they may not be able to discontinue their use, or that BPA's 5b/9c Policy would result in reducing their load service from BPA. BPA wishes to have utility customers take action to help BPA and the region through the energy emergency without a reduction in those utilities' net requirement loads. This short-term Policy is intended to clarify any inconsistency between the temporary installation and use of small resources (which were unplanned by the utility prior to the emergency) and the

possible export of power from those temporary resources during the emergency as not affecting their BPA service. It does not revise the 9(c) Policy; rather, it clarifies the policy by stating that power exported from small resources installed during the emergency and meeting the criteria of this Policy are unplanned and not within the Policy, or are temporary resources within an exception to the 9(c) standard. It is intended to provide flexibility for temporary small resources during the power emergency.

DESCRIPTION OF THE TEMPORARY SMALL RESOURCE POLICY

Proposed Policy

This Policy is limited to 450 MW of small resources that are new to the region. These temporary small resources can be diesel, reciprocating gas, or gas turbine, and must produce at least 1 MW, but no more than 25 MW, per unit. In order to participate, the utility must have executed a contract for a 10 percent load reduction under BPA's Strategy for Utility Customer Load Reductions Under Subscription Power Sales Contracts and Utility Customer Export of Unplanned Resources Under Section 9(c) of the Northwest Power Act policy (Load Reduction Program). While the customer may apply some, or all, of the temporary small resources to its own load to meet this requirement, only resources in excess of the 10 percent load reduction will be eligible for treatment under this Policy. The amount of load reduction which results from this Policy will not be counted under BPA's rate mitigation calculations. The Policy will be effective from June 2001 through September 30, 2002, and customer participation is on a "first-come, first-served" basis. However, each temporary new resource may operate for no more than a consecutive 12-month period.

BPA will take no financial stake in developing such resources, and will not buy the output of the resources. Customers may, however, buy market-priced resource back-up services from BPA. This Policy requires the customer to meet all applicable Federal, state, and local regulations and industry practices including, but not limited to, those of the Federal Energy Regulatory Commission (FERC) and National Electric Reliability Council. In addition, all diesel and natural-gas-fired reciprocating engine generators must have a maximum nitrogen oxide (NOx) emission rate of 3.6 pounds (lbs.) of NOx per MW-hour and must fully mitigate for toxic air pollutant emissions as noted in sections M and N (below). These limitations are consistent with the effects described in the Business Plan EIS.

BPA recognizes that the addition of these temporary short-term resources will not precisely match their loads, and that power may need to be resold by the customer to help manage its resources during this energy emergency. Therefore, BPA is clarifying its 5b/9c Policy to give customers the flexibility to help the region meet the energy emergency. These temporary small resources may be operated for service to regional customers' load, or sold on the open wholesale market under the conditions stated in this Policy. For the duration of this power emergency, the excess output of the small resource may be sold, without a reduction in BPA's requirements obligation to the

customer adding the resource. This Policy is designed to allow the immediate addition of energy resources during this summer and the upcoming contract year and to remove a potential impediment to customers; it is applicable only through September 30, 2002.

Key Policy features are:

A. All resources are brought into the program with the clear understanding that this Policy is applicable only on a temporary basis. BPA is conducting a broad review of a variety of actions planned or underway to meet the energy emergency. BPA may decide as part of the broader review to modify this Policy. Any such modifications would apply only to resources added after the adoption of the modifications; modifications would not be retroactive to resources already in operation.

B. A resource's operation may vary depending on applicable regulations for the particular resource. For example, if a state limits the number of hours a particular kind of generator may operate, monthly or annually, then that limitation applies in determining the amount of power from that resource eligible for treatment under this Policy.

C. The developer and/or customer will be entirely responsible for all costs of development, operation, and site remediation. The developer and/or customer will hold BPA harmless and indemnify BPA against all claims arising from the operation of the resource.

D. For the duration of the emergency, customers can serve their own load with such resources without 5(b) effects on their net requirements and may export a portion of these small resources not used for their load without a reduction of BPA firm power obligation to the customer under 9(c).

E. Developers must be able to change the operation of the resource after the 12-month period of this Policy. Customers may continue to operate the resource but it would be subject to the standard 9(c) Policy on export after the 12-month period to which this clarification applies.

F. Any export of power from a small resource that does not meet this Policy's criteria, or ceases to meet the criteria, will be covered by the 5b/9c Policy as the terms of that policy apply to the larger, more permanent non-Federal resources of the customer.

G. All temporary small resources must be separately metered in accordance with BPA's current policies on new metering arrangements.

H. Customers and resource developers are responsible for obtaining transmission paths, as required.

I. For the purposes of this Policy, the emergency is deemed to extend from June 2001 through September 2002.

J. Twelve months means twelve consecutive calendar months. The amount of generation accomplished during that time is expected to vary from unit to unit and customer to customer. Twelve months of generation does not mean 8,760 hours times the hourly output of the generator. If a temporary small resource comes on line with less than twelve months until September 30, 2002, that resource will only be covered by this Policy until September 30, 2002.

K. Customers may apply for coverage under this Policy on a first-come, first-served basis. The Policy will apply to customers as of the date their application is received by BPA. The utility sends a letter to their BPA Customer Account Executive to apply. The letter must include:

1) size of resource,
2) type of resource,
3) name of resource owner,
4) site for resource,
5) electric pathway/transmission access,
6) date contract for resource is effective,
7) duration of such contract,
8) date of operation of resource, and
9) identification of compliance with Federal, state, and local regulations, and the limitation in L, M, and N below.

L. This Policy requires the customer to meet all applicable Federal, state, and local regulations and industry practices. In addition, all diesel and natural-gas-fired generation units must have a maximum NOx emission rate of 3.6 lbs. per MW-hour and must fully mitigate for toxic air pollutant emissions as per section M (below). These limitations are within the range of effects described in the Business Plan EIS.

M. All temporary small resources subject to this Policy must mitigate for the toxic air pollutants associated with the generation of electricity to be marketed on the grid. No mitigation will be required for emissions from generation used to meet 10 percent load reduction. Natural-gas units must mitigate for uncontrolled volatile organic compound (VOC) emissions. Diesel units must mitigate for uncontrolled total particulate emissions (total PM). Ultra low sulfur fuel (0.0015 percent sulfur) can be used as a means to partially mitigate total PM emissions from diesel-fired units.

N. Mitigation can be accomplished by the use of controls, by directly obtaining offsets, or via a one-time payment of $5,000/ton to a local non-profit entity such as the BPA Environmental Foundation, or other governmental agency that is authorized to accept mitigation funds. BPA encourages customers to direct mitigation funds for uses to monitor or reduce toxic air emissions within the air

shed of the temporary small resource. Mitigation funds must be paid, and offsets in place, by September 30, 2003.

O. This Policy is not intended to address, affect, or circumvent access to the BPA transmission system, which may be required for the delivery of power produced by small generation resources covered by this Policy. BPA transmission customers must still initiate and arrange for transmission on BPA's transmission system under its Open Access Transmission Tariff and Transmission and Ancillary Service Rate Schedules, as amended.

PUBLIC PROCESS AND CONSIDERATION OF COMMENTS

Consistent with BPA's tiered ROD strategy for the Business Plan EIS, a public process for the power emergency was launched in January 2001. On January 25, the Administrator sent a letter to BPA customers and citizens of the Pacific Northwest addressing the conditions driving BPA's power rates. The Administrator sent another letter to customers and citizens on March 29. This letter discussed the impacts of the Northwest drought and how the Federal hydro system would be operated during the summer of 2001 to meet reliability needs. On April 9, the BPA Administrator introduced responses to the power emergency in a speech titled "Reducing BPA's Wholesale Power Rate Increase: Managing through a short-term crisis to ensure long-term benefits." All of these documents are accessible through BPA's web site: www.bpa.gov.

Several issues of the BPA publication *Keeping Current* have been published that provide additional information about the energy crisis and related issues: "Working Together to Keep the Lights On and Costs Down," April 2001; "Taking on the Energy Crisis: Providing Tools for Conservation and Load Reduction," May 2001; and "Bringing Power to the People: BPA's Plan to Assure Reliable Electric Transmission in the Northwest," May 2001. In addition, several articles have appeared in BPA's monthly publication, the *Journal,* and energy-saving tips have been posted on BPA's web site.

BPA specifically opened the public comment process on this Policy on May 17, 2001. On May 24, 2001, BPA held a public meeting to provide information and take comments on this proposed Policy. Some 24 people participated in the meeting. In addition, BPA received written comments from 16 individuals, agencies, and interest groups.

Comments received are summarized below, followed by BPA's responses to those comments. A more detailed list of comments and BPA's responses are included in Attachment A to this ROD.

ADMINISTRATIVE

A. Several commenters asked about the "emergency" as it applied to the term of the proposed Policy. Such commenters were concerned as to whether the emergency was expected to be 12 or 16 months in duration. In any event, these commenters all felt the term of the Policy was too short to be economic.

Response:
BPA is aware that the energy emergency may continue beyond the expiration date of the Policy. BPA may consider at the appropriate time whether to extend this Policy for an additional operating year. Several comments by BPA customers or customer groups suggested that BPA should take the longer timeframe of two to five years in account when adopting this Policy. Were this Policy BPA's only action to address the current energy crisis, the commenters would have a point. However, BPA is not proposing this Policy as the only response to the circumstances facing it and the region in regard to power supply, water conditions, and market condition. This Temporary Small Resource Policy is only one part of BPA's effort and is focused specifically on the immediate actions which utilities may take regarding meeting a portion of load and reliability. Therefore it is appropriate to limit the duration of the Policy and its application since conditions should and will change. BPA will update its assessment of power supply conditions during the next operating year and evaluate the potential need for this Policy. Given that changes will occur, it is difficult to assess that need at this time.

B. Customers were concerned about how the emergency Policy is intended to coordinate with the Load Reduction Program. Commenters were concerned that load reduction actions (including addition of resources or purchases undertaken in the BPA agreements with the expectation of not having their BPA load obligations reduced in the period after that agreement) would be confused with BPA's Section 9(c) treatment for exports of short-term resources, and could be terminated after one year by this emergency program.

Response:
BPA is undertaking a number of actions to alleviate its current power supply condition. Those actions include reducing load by buying down the customer load that BPA had expected to serve on a planned basis, notably portions of its DSI load. BPA also negotiated a return of power sold to two IOUs as part of the settlement of its residential exchange program obligations.

BPA's conservation efforts have increased and BPA has called on the public and utilities to support conservation. The Load Reduction Program contracts will provide the potential of lower rate increases if the customers are able to achieve reductions through planned and additional conservation efforts, as well as through their efforts to supply generation. This Policy can apply only to resources in excess of Load Reduction program amounts.

C. Commenters had specific questions about the terms of the proposed Policy. BPA was asked to clarify how the first-come, first-served application process would work. Utility representatives did not like the idea that customers without generation could sign up for the program before their temporary resources were in place. The environmental community wanted environmental-friendly resources to be moved to the front of the queue. Customers wanted clarification that 12-month eligibility was the right to operate the temporary resource for 365 days rather than the right to generate X number of MW times 8,760 hours, no matter how long it took to do so.

Response:
The term of the Policy is 15 months. Customers who add their small resource generation at the beginning of the Policy will have that generation covered for a 12-month period, after which the generator is no longer covered by this Policy. The 12 months of coverage is a time period of coverage with no expectation of the total number of megawatt hours generated during that period up to 100 percent plant factor for the units covered. Customers may request coverage on a first-come, first-served basis. BPA selected a first-come, first-served approach in order to avoid having confusion over eligibility for coverage, and for administrative ease in processing one application before another. The customer must provide a letter request stating the information required but no procedure is established for getting to the head of the queue. The application and information is simple enough that time considerations should be minor. The Policy describes the information required to be submitted to BPA.

D. Commenters felt that the Power Business Line (PBL) had to ensure that the Policy did not wrongfully impinge on Transmission Business Line (TBL) responsibilities. Some wanted PBL to work out all issues with TBL for the benefit of the customers involved. Other commenters wanted PBL to use TBL transmission constraints as a yardstick for ranking applications; i.e., preference would be given to resources situated so as to ameliorate transmission congestion.

Response:
The temporary small resources will be physically integrated into the customer's distribution system. BPA has a separate transmission process for wheeling customer resources. Implementation of this Policy does not influence those decisions. This 15-month Policy is not designed or intended to resolve transmission constraints. The term of the Policy and the small size of these unplanned resources caused BPA to not direct this Policy at constrained path issues.

ECONOMIC

A. Some commenters felt that BPA should insist that the output of the temporary resources remain in the region, obviating the need for relief from Section 9(c).

Response:
BPA believes that these resources are being added in addition to other resources already planned for the customer's regional load, and as unplanned resources, these small resources may be in excess of or not used for load at times. BPA believes the temporary and emergency nature of the addition by the customer of the resource warrants the policy clarification that exports of power from them will not result in a reduction of BPA obligation to serve load. BPA believes that some resources will not be acquired if the result is a reduction in BPA's obligations to a customer, when the resource is over and above the amounts of planned customer resources for its load and the Load Reduction Program amounts to which the customer has committed. There is also a need for resources on the West Coast and that these temporary small resources can be of value for the 12-month time period to both regions if they are sold, when not used, for Pacific Northwest load.

B. Commenters suggested that, instead of encouraging utilities to acquire small resources for themselves at no cost to BPA, BPA should acquire large resources on a temporary basis and sell the output to its customers. The commenters believed that would give the region the benefits of scale while bringing in larger, more environmentally friendly resources.

Response:
This Policy is not intended to encourage utilities to acquire small resources. Rather, it is intended to remove a barrier for use of the small resources under this program for a 12-month period, given the power emergency conditions in the region. Longer-term resource development would not be possible within a year and such decisions will be made in a different forum. BPA's strategy for meeting loads in the next year is to avoid high-priced market purchases to the extent possible. This Policy is only one of the number of responses outlined above which BPA intends to use as a response to current power conditions. It does not replace BPA's long-term resource plan to fully meet its load obligations to its regional customers. BPA does not see this Policy as interfering with its other resource programs and any such additions to Federal resources are made consistent with Section 6 of the Northwest Power Act.

ENVIRONMENTAL

A. BPA received comments on a number of environmental issues. Parties repeatedly noted that diesel generation is the dirtiest available for this Policy. Parties pointed out that the BPA Business Plan EIS did not specifically cover

diesels and they believe BPA should do nothing to enable small diesel-fired generation.

Response:
BPA shares the concern about the emissions from diesel generators. Therefore, the Policy limits the total quantity of diesel generation to be covered by the Policy and imposes emissions limits and mitigation which were not included in the original Policy proposal. BPA believes that with the emissions limitations and mitigation imposed by this Policy, emissions are consistent with and within the range of air quality impacts analyzed in the Business Plan EIS.

B. Commenters called on BPA to remove diesel generation from the Policy. Failing that, they called on BPA to reduce the amount of MW of diesel generation eligible for participation in the program. Commenters also called for stringent, detailed, and uniform emissions control requirements for diesel generation. There were also requests for requiring mitigation efforts (e.g., tree planting, old-car purchases, etc.) by those employing diesel-fired generation.

Response:
BPA shares the concerns about diesel generation, but BPA is not an air quality control agency. Instead, BPA has structured the Policy as one of inclusion if the specified limitations are met. The Policy limits the amount of diesel (225 MW) which may be covered by the Policy, and it limits the emissions (3.6 lbs. NOx per MW-hour) and requires mitigation of toxic pollutants. BPA believes that these limitations provide a reasonable basis, under short-term emergency conditions, for including diesel generation in this Policy.

C. Comments concentrated on diesel-fired generation to the extent of virtually ignoring natural-gas-fired generation, whether reciprocating, simple-cycle, or combined-cycle turbines.

Response:
The BPA pollution limitations and mitigation requirements extend to all resources.

TECHNICAL

Commenters requested information on the availability of alternative systems and the levels of emissions control available. Commenters were also interested in the mechanics of the siting process.

Response: The BPA pollution limitations and mitigation requirements extend to all resources. Individual utilities and vendors will have to decide if the timing and economics work out for their individual projects. Projects will be sited under applicable state and local requirements.

OPERATIONAL

A. Commenters cited transmission congestion as a consideration in siting temporary small resources. In addition, the short term of the Policy and the limited size of the resources would not be conducive to relieving transmission congestion.

Response:
BPA is not intending to address other complex issues such as transmission congestion by this Policy since those issues would have to contemplate FERC-approved tariffs and are beyond the scope of this Policy. BPA wants to keep the program as flexible as possible to encourage participation by its customers.

B. Commenters felt that the PBL had to ensure that the Policy did not wrongfully impinge on TBL responsibilities. Some wanted PBL to work out all issues with TBL for the benefit of the customers involved. Other commenters wanted PBL to use TBL transmission constraints as a yardstick for ranking applications; i.e., preference would be given to resources situated so as to ameliorate transmission congestion.

Response:
The temporary small resources will be integrated into the customer's system. BPA's transmission business has a process for dealing with small generation resources being connected to customers' transmission and distribution systems. This process allows most temporary small generation resources of less than 25 MW in size, and not requesting new firm transmission, to be connected to utility facilities quickly. This 12-month Policy is not designed or intended to resolve transmission constraints. The term of the Policy and the small size of the resources caused BPA to not direct this Policy at constrained path issues.

ENVIRONMENTAL ANALYSIS

Consistent with the Business Plan ROD, the Business Plan EIS was reviewed to determine whether the Policy is adequately covered within its scope. The Business Plan EIS alternatives analyzed a range of marketing actions and response strategies (e.g., eliminate power purchases) to maintain a market-driven approach. The Business Plan EIS showed that environmental impacts are determined by the responses to BPA's marketing actions, rather than by the actions themselves. These market responses include resource development, resource operation, transmission development and operation, and consumer behavior.

Environmental Impacts
The Business Plan EIS analyzed the effects from changing BPA loads (and the resulting impacts of resource development and operations). BPA reviewed both short-term and long-term effects of load changes. With limited supply of resources, it is likely

the continued operation of older, less efficient thermal resources would produce higher air emission than newer combustion turbines (CT). In addition, temporary resources that can follow load are also likely. Since the market conditions have changed substantially, as anticipated in the Business Plan EIS, the likelihood of increases in the environmental impacts—primarily air quality impacts—could be expected (Business Plan Final EIS, Figures 4.3-1, 4.3-2, 4.3-4, and 4.4-1). However, these changes would be a function of the market—not of the use of a Temporary Small Resource Policy.

Marketing Impacts

This Policy is intended to remove obstacles to BPA customers developing resources. The precise quantity of such development is unknown since that is a function of individual utility action. However, the addition of new resources into the very tight West Coast market could provide a favorable condition for market prices. The current tight market has driven prices unusually high. An infusion of new resources would release some of the market pressure and tend to soften prices. In fact, in recent weeks, the future market prices have begun to soften measurably. Clearly, however, the markets remain volatile. Additional resources will influence that market in a positive direction for BPA and other potential purchasers.

Reliability Impacts

The Council and Northwest Power Pool have described the Pacific Northwest reliability situation as "without operating margin." The Council recently announced that load reductions, conservation, and new resources (including temporary small resources) have slightly increased reliability for the summer of 2001 and winter of 2001-2002. They caution, however, that reliability standards are far more stringent than the current situation. They are asking for continued load reduction, conservation, and new resource additions. Resources brought on as a result of this Policy would be a direct benefit to the Pacific Northwest reliability status.

Public Service Benefits

Consistent with the Market-Driven approach, the offer of the Policy strikes a balance between marketing and environmental concerns. BPA will remain an active participant in the competitive market for power, and will use its success in the market to ensure the financial strength necessary to better produce the public benefits that BPA affords to the region.

Mitigation

BPA understands that conditions that permit the agency to function successfully may change over time. Therefore, under the Market-Driven approach, BPA is using many measures to offset the power emergency. These measures are outlined on page 4 of this ROD and include promoting the use of renewables and conservation. Such mitigation has enhanced BPA's ability to adapt to changing market conditions. In addition, BPA has taken environmental mitigation under this short-term Policy by limiting the use of diesels, affirming certain air emission controls, and limiting the duration of operations to 12 months. These mitigation measures have been required to

enable BPA to best meet its public service and environmental obligations, while remaining competitive in the wholesale electric power market.

PUBLIC AVAILABILITY

This ROD will be distributed to all interested and affected persons and agencies. Copies of the Business Plan, Business Plan EIS, the Business Plan ROD, and additional copies of this Temporary Small Resource Policy ROD are available from BPA's Public Information Center, P.O. Box 12999, Portland, Oregon 97212. Copies of these documents may also be obtained by using BPA's nationwide toll-free document request line: 1-800-622-4520.

CONCLUSION

In light of the Pacific Northwest conditions outlined above and the West Coast power supply emergency, I have decided it is in the best interests of BPA's customers and the electric ratepayers of the Pacific Northwest to adopt the Temporary Small Resource Policy. As described above, BPA has considered both the economic and environmental risks and consequences of taking action to relieve the pressures of the power emergency. To forego this opportunity to remove a barrier to the immediate addition and benefit of temporary small resources to the region's load service would result in greater power supply risks during this emergency. Such risks could result in substantial financial loss and serious deterioration in BPA's ability to meet its costs and ensure a reliable supply of power to its customers. There are clearly significant differences of opinion in the region regarding the feasibility and equity of using this Policy to help meet the current emergency. I believe that the Policy is an important part of the overall plan to help ensure that BPA meets its costs; ensures system reliability and an adequate and economic power supply; controls rate increases; and continues to finance its public agency responsibilities, including restoration of the region's fish and wildlife resources.

Issued in Portland, Oregon, on June 22, 2001.

/s/ Stephen J. Wright
Stephen J. Wright
Acting Administrator and
Chief Executive Officer

Attachment:
Comments and Responses

ADMINISTRATOR'S RECORD OF DECISION

Temporary Small Resource Policy
Attachment A
Comments and Responses

LIST OF COMMENTERS

Utilities & Utility Organizations
Benton Rural Electric Association
Emerald Peoples Utility District
Franklin PUD
Grant County PUD No. 1
Grays Harbor PUD
Klickitat PUD
Northwest Rural Utilities
Pacific Northwest Generating Cooperative
Public Power Council

Government Agencies
Puget Sound Clean Air Agency
U. S. Environmental Protection Agency
Washington State Office of Trade and Economic Development

Public Interest Groups
Columbia River Inter-Tribal Fish Coalition
Environmental Advocates
Montana Environment Information Center
N. W. Energy Coalition
Renewables Northwest Project

Industry Representatives
Direct Service Aluminum Industry (Michael Early)
Enron
Halton (Caterpillar Diesel Generators)

Individuals
Mark Anderlik
Aaron Coffin
John Masterson
Sonya Ling
Noel Shelton
Frederick Smith

COMMENTS AND RESPONSES

1. *ENVIRONMENTAL*

Overall Environmental Theme: By creating this Policy, BPA is fostering the use of dirty diesel-powered resources in the region. BPA needs to clarify what it means by "Best Available Control Technology." BPA should be encouraging clean, cheap, and renewable resources.

Specific Environmental Comments:

Comments and Responses	Commenter
Diesel gensets are dirty. We need to very carefully consider allowing their operation. *Response:* BPA shares the concern about the emissions from diesel generators. Therefore, the Policy limits the quantity of diesel generation and, to fall within the Policy, BPA applies a standard for emissions limits and mitigation not found in the original proposal.	Ken Johnston, CRITFC
Need a carbon dioxide standard for these units, plus required mitigation for their cumulative impacts on the environment. *Response:* BPA is aware of the air quality and other environmental impacts from fossil generation. The limited time duration of the Policy and limited quantity of generation, while still controversial, reflect our attempt to limit impacts. BPA has included mitigation as part of the action a customer would take to be under this Policy.	Eugene Rosolie, NW Environ. Advocates
Why should BPA set itself up as a separate pollution control agency? *Response:* BPA is not establishing itself as an air pollution control agency, but has required that the customer show compliance with the permits of agencies who review the generation. BPA is cognizant of fulfilling its responsibility to understand and avoid environmental impacts where feasible.	Kevin O'Meara, PPC
To require mitigation for the pollution is a good way for BPA to deal with NOx, CO2, etc. These are dirty resources. *Response:* To be within the Policy, BPA is limiting the NOx emission from the generators and requiring mitigation for toxins. The limitation on the duration of the Policy and the quantity of generation are imposed to limit and restrict the CO2 consequences.	Steve Weiss, NEWC

Comments and Responses	Commenter
The diesels produce 600 times more NOx than a combined-cycle combustion turbine (CCCT) and four times more NOx than an old-technology coal plant. Cannot over-emphasize the dirtiness of diesel. *Response:* BPA shares the concern about the emissions from diesel generators. Therefore, the Policy limits the quantity of diesel generation and imposes emissions limits and mitigation not found in the original proposal.	Deb Smith, Montana
Remove diesel reciprocating gensets from the eligibility list. *Response:* BPA has concluded that, while controversial, it is reasonable to include diesel generators within the limitations in the Policy.	Nancy Hirsh, NWEC
Most of the units in Washington State already have NOx-reduction equipment installed. *Response:* BPA is aware that many facilities in the region are operating to limit or mitigate emissions.	Jim Calloway, Halton
There is too much diesel in the region already. *Response:* BPA shares the concern about the emissions from diesel generators. Therefore, the Policy limits the quantity of diesel generation and imposes emissions limits and mitigation not found in the original proposal.	Sonya Ling, Renewables NW Project
Likes the idea of mitigation. *Response:* This Policy requires mitigation for toxic emissions in order for the generation to be covered by the Policy.	Gene Fitzgerald, Halton
Do we need to go a step backwards in our energy use? Mass diesel burning has been linked to a number of diseases, including cancer. *Response:* The current regional energy emergency conditions and the West Coast power market has caused a variety of unusual responses. BPA shares the concern about the emissions from diesel generators. Therefore, this short-term Policy limits the quantity of diesel generation and imposes emissions limits and mitigation not found in the original proposal.	Frederick Smith
Absolutely opposed to the use of diesel generators. The health risks from diesel include cardiopulmonary disease, respiratory illnesses, and cancer. *Response:* BPA shares the concern about the emissions from diesel generators. Therefore, the Policy limits the quantity of diesel generation and imposes emissions limits and mitigation not found in the original proposal.	Aaron Coffin

Comments and Responses	Commenter
Regarding mitigation—perhaps spread over a five-year period, the air pollution effects through contributions to Oregon's Climate Trust, the BEF, or tree planting; other measures might make sense. *Response:* In order to be covered by the Policy, BPA is requiring mitigation of toxic emissions for the generation. The methods described by the comment are available to developers.	Steve Weiss, NWEC
Uncontrolled emissions for diesel are outside the Business Plan EIS. 30 MW of diesels (uncontrolled) equal 18,000 MW of combined-cycle NOx (more than any EIS evaluated). *Response:* BPA shares the concern about the emissions from diesel generators. Therefore, the Policy limits the quantity of diesel generation and imposes emissions limits and mitigation not found in the original proposal. In addition, the Business Plan EIS evaluated air impacts on a "per megawatt basis." Air quality impacts from diesel generation were within the same order of magnitude as air quality impacts from other generation on a per-megawatt basis.	N/A
Increasing pollution is an unnecessary trade-off, even in our current drought conditions. *Response:* BPA is aware of the controversy surrounding pollution from temporary small generators. Our Policy seeks to limit pollution, while being responsive to the emergency situation.	Mark Anderlik
BPA should address how it intends to enforce best available control technology (BACT). *Response:* BPA is not an enforcement agency. We are requiring that resources covered by the Policy meet all Federal, state, and local requirements and be designed to produce no more than a specified amount of pollutants. Enforcement of local requirements by local officials is BPA's preferred path.	WA Trade and Economic Development
If global warming becomes an issue, the ability of the NW hydro system to generate many terawatt hours of power every year without CO2 emissions will become increasingly important from an environmental standpoint. *Response:* BPA agrees that hydro generation does not present the same issues as fossil fuel generation in avoiding CO2 emissions.	PPC

Comments and Responses	Commenter
BACT requirement – BPA may needlessly be encroaching upon the responsibilities of the state environmental agencies. *Response:* BPA will depend on state and local agencies for the small generation resource siting and operating decisions. In order for generation to be covered by the Policy, BPA included limitations which are reasonable approaches to thermal generation alternatives. BPA is not trying to supplant local decisions.	Brian Skeahan, Klickitat PUD
Proposal could lead to a proliferation of small diesel-fired power-generation facilities whose local as well as cumulative air quality and associated public health impacts could be significant. *Response:* BPA shares the concern about the emissions from diesel generators. In order for generation to be covered, the Policy limits the quantity of diesel generation and imposes emissions limits and mitigation not found in the original proposal. BPA developed these approaches in consultation with staff at the Environmental Protection Agency, Region X. (This is not to imply that Region X in any way endorses this Policy.)	Marylou Soscia, EPA
Potential cumulative human health effects and environmental impacts resulting from 450 MW of new diesel generation cannot be adequately understood and analyzed without a National Environmental Policy Act (NEPA) process. *Response:* BPA believes that the Business Plan EIS and the assistance gained via discussions with regulatory officials and the concerned public allow the Policy decision to be made in a measured and considered process.	Graden Oehlerich, Montana EIC
The cumulative effects of new generation which is now coming on line, or will be soon, have not been examined. *Response:* The BPA Policy imposes limits on some pollutants and mitigation for others in order for generation to be covered by the Policy. In addition, the duration of the Policy and limitation on the amount of diesel generation combine to provide effects that have been considered in the Business Plan EIS.	Graden Oehlerich, Montana EIC

Comments and Responses	Commenter
Have significant concerns about the air quality impacts of these temporary generators based on the air quality analyses conducted in permit reviews. *Response:* BPA shares the concern about the emissions from temporary generators. The Policy limits the quantity of diesel generation and imposes emissions limits and mitigation in order for generation to be covered by the Policy, which were not found in the original proposal. BPA developed these new approaches after review of local air quality permits and other information.	Jim Nolan, Puget Sound Clean Air Agency
Proposal falls short of protecting the health of the public and the environment threatened by inefficient generation. Believes an analysis in the context of a NEPA supplement should be undertaken. *Response:* The BPA Policy imposes limits on some pollutants and mitigation for others in order for generation to be covered by the Policy. In addition, the duration of the Policy and limitation on the amount of diesel generation combine to provide effects that are within the scope of the Business Plan EIS.	Steve Weiss, NWEC
Limits on total amount of qualifying generation as well as requirements for emission control technology standards should not be imposed under this Policy because of air quality issues. Air quality issues are already handled through existing local, state, and Federal permitting approval processes. *Response:* BPA is depending on work done by local air pollution control agencies. At the same time, it is fulfilling its responsibility to understand and avoid environmental impacts where feasible.	Franklin PUD

2. *ADMINISTRATIVE*

Overall Administrative Theme: BPA must clarify how this Policy interacts with other rate mitigation and load reduction policies under the Subscription contracts. BPA needs to make this a simple, easy-to-administer Policy that sets broad goals for participants, but does not try to micro-manage how those goals are achieved. Who is going to ensure that all the required standards are adhered to? Define what the emergency is and for how long.

Specific Administrative Comments:

Comments and Responses	Commenter
Clarification is needed about how the output from the gensets contributes to the 10 percent load reduction targets. The Policy as drafted conflicts with the 10 percent load reduction policy and in general is too restrictive. *Response:* This Policy only applies to resources in excess of those used for the 10 percent load reduction commitment and therefore does not replace or conflict with the 10 percent load reduction agreements. BPA believes the Policy is reasonable given the concerns about environmental impacts.	John Saven, NRU
Meeting applicable state pollution laws is inadequate. *Response:* BPA is a Federal agency and is not in a position to revise state law or determine that state law is inadequate. The BPA Policy imposes specific controls on pollutants or requires mitigation in order for generation to be covered by the Policy.	Nancy Hirsh, NWEC
What is "the duration of the emergency"? *Response:* Currently, BPA believes the immediate emergency condition to be some 15 months. BPA will assess what changes have been made in the power supply condition prior to the next operating year. BPA believes generally that the power emergency on the West Coast could persist for two years, after which planned generation additions should balance loads.	Michael Early
Why facilitate the sale of power south? Why is Section 9(c) involved? *Response:* The temporary small resources covered by the Policy are unplanned additions for utility load service. It may be impossible for customers to size resource additions under this Policy to their load and BPA customers have asked for the ability to use West Coast markets for the sale of these resources. BPA believes this is reasonable given the short duration of the Policy and the extent of the power shortfall. BPA agrees that this type of generation may not be added if a customer would face a reduction of the Federal power it purchased for its load from BPA over the next year. BPA believes that the region will benefit from the addition of these temporary resources over the next year.	Michael Early

Comments and Responses	Commenter
State and local air quality management authorities, not BPA, should determine restrictions on the use of temporary resources. *Response:* BPA is not making determinations on air quality management. BPA does depend on state and local air quality management agencies. In order for generation to be covered by the Policy, the limitations stated by BPA must be met. Given the concerns about the type of pollution associated with the facilities involved, such considerations are reasonable.	PPC
Policy draft is another restriction imposed by BPA that interferes with its customers' efforts to effectively bring new resources on line and on time to meet retail loads. No need for a separate set of policies for this subset of resources given the clarification of the existing 5b/9c Policy. *Response:* This Policy is of limited duration and focused on a specific condition which may be alleviated in the near future. BPA has not adopted any clarification of its current existing 5b/9c Policy beyond this proposed Policy. BPA customers have asked BPA to consider clarifications of its May 2000 Policy.	Benton, Franklin, and Grays Harbor PUDs
A two-year period like the 10 percent load reduction plan is about right. *Response:* BPA will assess the further need for this Policy next year, before the commencement of the following operating year. System conditions in the region may change in the interim. The concern about the environmental impacts of the resources covered by the Policy caused BPA to limit its Policy to 12 months.	EPUD

Comments and Responses	Commenter
To make the 10 percent strategy work, BPA cannot just rely upon its Section 9(c) "stick," but should utilize "carrots" that will ensure the outcome is better than had it not implemented the 10 percent strategy at all. Doubts BPA has the authority to grant a waiver, even temporarily, of its 5b/9c requirements. *Response:* BPA is adopting this Policy to encourage short-term generation in an emergency condition and to clarify that a customer who installs and uses unplanned small generation will not face the potential disaster of having BPA reduce its amount of Federal power during the emergency due to such additions. BPA does not believe that its Section 9(c) Policy was intended to cause such a result during conditions of a power emergency. BPA understands that unplanned resource additions within a year are difficult to size and manage for a utility without having excess generation. This is an instance in which it is better to have the generation available in the short-term period than to discourage its application. The amounts of generation covered by the Policy are over and above the amounts a customer has already undertaken to provide as part of its load reductions agreement with BPA. As stated, BPA is using a variety of measures to help address the current conditions and reduce the possibility of future rate increases. BPA believes this Policy has limited application and is reasonable given the conditions BPA and the utilities in the region face.	Steve Weiss, NWEC
Want to make sure the NW does not become a polluting energy farm for California. Also, want to help utilities cover their 10 percent commitment with the cleanest and most cost-effective solutions possible. *Response:* BPA shares this concern and agrees with the stated strategy. However, in order to meet loads over the next several months and the operating year, BPA believes that the array of measures must be available to utility customers that will facilitate the addition of temporary resources and the 10 percent load reductions. This Policy is not intended to be of lasting or long-term effect. BPA will review the need for the Policy before the following operating year.	Steve Weiss, NWEC

Comments and Responses	Commenter
BPA should focus its attention on correcting the problems with the existing 5b/9c Policy. This proposed Policy is aimed at being a short-term, quick fix to the 5b/9c Policy. *Response:* Your comment is correct in that the existing 5b/9c Policy is currently being implemented and BPA has heard the customers' request for clarification. This Policy only addresses a specific set of power system conditions and was also at the request of our customers.	Douglas Brawley, PNGC
The proposed temporary Policy approach of linking the 5b/9c waiver to BPA's program seeking load reduction is a disincentive to the intended goal of encouraging new generation. *Response:* BPA has not generally waived application of Section 5(b) or Section 9(c) to a customer's non-Federal resources. BPA believes this Policy, which encourages the addition of temporary small generation to address a near-term condition of the regional power system, is not a disincentive to long-term actions. Nothing in this Policy prohibits or impedes the addition of long-term generation to load by a customer. As to the link between this Policy and the Load Reduction Program, BPA has stated that these small resources, temporarily added by a customer, must be over and above the 10 percent load reduction to be covered.	Douglas Brawley, PNGC

3. *ECONOMIC*

Overall Economic Theme: Small temporary resources are expensive to acquire and to run; 12 months is not long enough to recover the initial costs of setting up the resource. BPA should be looking for cheaper alternative sources of energy for the region.

Specific Economic Comments:

Comments and Responses	Commenter
One year is too short for (reciprocating genset) operators to recover their infrastructure costs. Two years are needed. *Response:* The purpose of this Policy is to address one part of meeting a current and immediate condition. BPA is aware that the economics of small generation may be questionable for a 15-month policy. However, the environmental effects of the generation and concern about the resources caused BPA to provide the 12-month resource operating duration. BPA will assess the further need for this Policy before the commencement of the following operating year. System conditions in the region may change in the interim.	Jeff Shields
Why limit the operating period to 12 months? Plan is too restrictive; it must be longer. *Response:* BPA is aware that the economics of small generation may be questionable for a 15-month policy. However, the environmental effects of the generation and concern about the resources caused BPA to provide the 12-month resource operating duration. The purpose of this Policy is to address one part of meeting a current and immediate condition. BPA will assess the further need for this Policy before the commencement of the following operating year. System conditions in the region may change in the interim.	Kevin O'Meara, PPC
There needs to be clarification on the 12-month time limit. Twelve months is too short. *Response:* The purpose of this Policy is to address one part of meeting a current and immediate condition. BPA is aware that the economics of small generation may be questionable for a 15-month policy. However, the environmental effects of the generation and concern about the resources caused BPA to provide the 12-month resource operating duration. BPA will assess the further need for this Policy before the commencement of the following operating year. System conditions in the region may change in the interim.	Michael Early

Comments and Responses	Commenter
A 12-month term is ridiculous for fully amortizing these gensets. *Response:* The purpose of this Policy is to address one part of meeting a current and immediate condition. BPA is aware that the economics of small generation may be questionable for a 15-month policy. However, the environmental effects of the generation and concern about the resources caused BPA to provide the 12-month resource generating duration. BPA will assess the further need for this Policy before the commencement of the following operating year. System conditions in the region may change in the interim.	Gil Gallegos, Grays Harbor PUD
Twelve months is silly. Twenty-four months should be the minimum operating term of the gensets. *Response:* BPA is aware that the economics of small generation may be questionable for a 15-month policy. However, the environmental effects of the generation and concern about the resources caused BPA to provide the 12-month resource generating duration. The purpose of this Policy is to address one part of meeting a current and immediate condition. BPA will assess the further need for this Policy before the commencement of the following operating year. System conditions in the region may change in the interim.	Richard, Emerald PUD
You want to limit it to a size of 1 - 25 MW, but what about multiple smaller projects and how come only 450 MW in total? Where did that number come from? *Response:* The Policy's size limitation applies to individual generating units, not groups of units. The 450 MW was selected as a reasonable total amount limitation, given the amount of interest expressed by customers in installing small generation of this type. Recall that this Policy is not the only responsive measure BPA has proposed to its customers for meeting this emergency power supply condition. Further, BPA remains concerned about the environmental effects of temporary small generation but believes the current limitations provide reasonable balance.	Tim Culbertson, Grant Co. PUD

Comments and Responses	Commenter
If BPA is so sure the region only needs this power for 12 months, do not ask for us to sell (give) our power back for a two-year period. *Response:* The purpose of this Policy is to address one part of BPA customers meeting a current and immediate condition. BPA will assess the further need for this Policy before the commencement of the following operating year. System conditions in the region may change in the interim. BPA believes the PNW will need to take other aggressive actions to meet the emergency and avoid major rate increases for two years. BPA customers will have the opportunity to create lower rate increases for at least that long. BPA has chosen to limit the total megawatt coverage of this Policy to the use of temporary small resources for the next 15 months in response to the concerns about environmental impacts.	Tim Culbertson, Grant Co. PUD
Opposes the Policy's 12-month restriction on the operation of temporary small resources, and the 450 MW limit on resources that would qualify to operate under the Policy. Discouraging additional generation through limiting the amount of generation that can qualify seems unwise. *Response:* This Policy does not restrict a customer's using or operating any resource. BPA is aware that tradeoffs need to be made sometimes. The purpose of this Policy is to address one part of meeting a current and immediate condition. BPA believes that the limitations in the Policy, while controversial, strike the appropriate balance. BPA will assess the further need for this Policy before the commencement of the following operating year. System conditions in the region may change in the interim.	PPC
The 450-MW limitation appears to be somewhat arbitrary and the purpose or rationale behind it is not evident. Limiting the operation of these small generation projects to 12 months should be reconsidered. *Response:* BPA disagrees. The Policy sets out the reasons for the limitations expressed. The purpose of this Policy is to address one part of meeting a current and immediate condition. BPA will assess the further need for this Policy before the commencement of the following operating year. System conditions in the region may change in the interim. BPA is aware that tradeoffs need to be made sometimes. BPA believes that the limitations in the Policy, while controversial, strike the appropriate balance.	Brian Skeahan, Klickitat PUD

Comments and Responses	Commenter
The proposed 450-MW limit to 5b/9c waivers in the proposed Policy seriously undershoots the mark. This amount should be increased to at least 1,000 MW. *Response:* BPA is adopting this Policy to encourage generation in an emergency condition and to clarify that a customer who installs and uses unplanned small generation will not face the potential disaster of having BPA reduce its amount of Federal power during the emergency due to such additions. BPA does not believe that its Section 9(c) Policy was intended to cause such a result during a power emergency. BPA understands that unplanned temporary resource additions within a year are difficult to size and manage without having excess generation. This is an instance in which it is better to have the generation available in the short-term period than to discourage its application. The purpose of this Policy is to address one part of meeting a current and immediate condition. BPA will assess the further need for this Policy before the commencement of the following operating year. System conditions in the region may change in the interim. BPA is aware that tradeoffs need to be made sometimes. BPA believes that the limitations in the Policy, while controversial, strike the appropriate balance.	Douglas Brawley, PNGC

Comments and Responses	Commenter
We are a region that is currently suffering severe energy shortages. There are over 2000 MW of new generation being proposed. I do not believe that any flexibility is necessary regarding 9(c) to "encourage" additional generation construction from the private or public sector. Flexibility of 9(c) provisions will simply allow regional resources to be sold into higher markets (California) while the Northwest continues to be plagued with energy shortages. *Response*: BPA is aware that some 2,000 MW of new permanent generation is planned in the region; however, even with the planned generation, the Council's study shows a 17 percent chance that the region will be unable to meet load this winter. Furthermore, most of that generation will not come on line until 2003. The region is facing an energy emergency between now and October of 2002; this Policy is one way of helping to get the region through the emergency. BPA believes that these temporary small resources are being added in addition to other resources already planned for the customers' regional load, and as unplanned resources, these small resources may be in excess of, or not used for, load at times. BPA believes the temporary and emergency nature of the addition by customer of the resource, warrants the policy clarification that exports of power from these small resources will not result in a reduction of BPA's obligation to serve load. There is also a need for resources on the West Coast. These temporary small resources can be of value for the 12-month time period to both regions if they are sold when not used for Pacific Northwest load.	Chuck Dawsey, Benton REA
Do not want to be limited to 25 MW per generator. A cap at 450-MW total generation is not in the region's best interest. The 12-month time limit under this small generator Policy may not adequately allow for shortages in the next few years. *Response:* The purpose of this Policy is to address one part of meeting a current and immediate power supply condition. BPA will assess the further need for this Policy before the commencement of the following operating year. System conditions in the region may change in the interim. BPA is aware that tradeoffs need to be made sometimes. BPA believes that the limitations in the Policy, while controversial, strike the appropriate balance. BPA found that available equipment design and manufacturing seemed to create a 'break point' at the per unit size limit of 25 MW and believes it is a reasonable definition of 'small.'	Franklin PUD

4. *TECHNICAL*

Overall Technical Theme: What is the availability and comparative cleanliness of the alternative systems? What is available for emission control? How long does it really take to site a small generator?

Specific Technical Comments:

Comments and Responses	Commenter
BPA could acquire power from much larger, more efficient, and cleaner CCCTs or even simple-cycle CTs. *Response:* Current planning information from the Regional Council indicates that on average it takes a minimum of 12-14 months for a CCCT to be constructed after siting is obtained. This would place the application of any actual generation after the next operating year when resources may be most needed. BPA customers asked for the flexibility to develop resources. The current BPA strategy is to avoid additional market purchases of any kind in the upcoming period.	Steve Weiss, NWEC
The lead-time to get the gensets online and running is 6-12 weeks. *Response:* Thank you for the information.	Gene Fitzgerald, Halton
Diesel generation with NOx scrubbers costs about $160 per MWh. *Response:* Thank you for the information.	Jim Galloway, Halton
Strongly advocate a commitment to wind generation. It is absurd that BPA is not buying every MW of output from the generators. Believes wind can come on as quick as diesels. *Response:* This Policy is only part of BPA's actions to aid the availability of resources to meet loads. BPA is a large purchaser of wind generation. BPA is currently evaluating several thousand MW of proposed wind power. However, this Policy is responding to requests from customers who expect to develop resources themselves.	Elliot Mean, Enron
Consider combined-cycle diesels. *Response:* BPA has tried to avoid the specific design features of individual resource developments. BPA customers and their developers are free to use combined-cycle diesels if they meet other BPA requirements.	Grays Harbor
Comments that advocate CCCTs as an alternative are not realistic. The siting, permitting, and construction of these units take several years. Three-months' lead-time is too short. *Response:* Thank you for the information.	Noel Shelton

Comments and Responses	Commenter
Consider the option of using renewable energy sources such as solar and wind power, rather than relying on archaic, outdated methods of energy production. *Response:* BPA is not adopting this Policy as the only measure to meet immediate load needs and this is not a long-term policy on resource development. BPA already has an active wind acquisition program. This program is directed at customers who have asked BPA for policy flexibility for their development of temporary small resources.	Frederick Smith
There is a far cheaper and more elegant solution to the apparent shortage of electricity; i.e., the production of power through conservation, higher efficiencies, and demand-side management (DSM). *Response:* BPA agrees that cost-effective conservation is the most desirable means of meeting power needs. BPA has emphasized the need for conservation to the region. However, BPA believes that in the next year the Northwest needs a full array of resources to supplement the conservation potential.	Mark Anderlik
Proposed Policy should not work to give preference to less environmentally friendly forms of generation at the expense of conservation and the use of cleaner technologies. Encourage load reductions through conservation and energy efficiency as well as through temporary new generation. *Response:* BPA has an aggressive program of load reduction and conservation. The Temporary Small Resource Policy will not replace the need for cost-effective conservation.	WA Trade and Economic Development
Strongly urge the use of enhanced energy conservation and fuel switching strategies as part of a longer-term strategy to address the electricity needs of the region. *Response:* BPA has an active conservation program that provides the foundation for resource acquisitions. BPA began the conservation and renewable discount program in February 2001, a full eight months early. In addition, BPA has a variety of innovative conservation activities underway throughout the Pacific Northwest.	Jim Nolan, Puget Sound Clean Air Agency

5. *OPERATIONAL*

Overall Operational Theme: BPA must really reconsider system reliability and transmission interconnection issues raised by this Policy.

Specific Operational Comments:

Comments and Responses	Commenter
Worried about transmission connections. *Response:* BPA's transmission business has a process defined in its transmission tariffs for connecting generation resources directly to the BPA transmission system and for providing transmission services. BPA's transmission business has also developed a separate process for dealing with small generation resources being connected to customer transmission and distribution systems. This process allows most temporary small generation resources of less than 25 MW in size and not requesting new firm transmission to be connected to customer facilities within the BPA Load Control Area in a short period of time.	N/A
BPA should review its transmission policies to facilitate the siting and construction of natural gas generation that can be brought on line this year. *Response:* BPA's transmission business has a process defined in its transmission tariffs for prioritizing and processing requests of generation interconnects.	WA Trade & Econ Develop

6. *MISCELLANEOUS*

Miscellaneous Comments:

Comments and Responses	Commenter
Three utilities he is representing are all in a race to get as much DSM and supplemental generation in place as fast as they can. *Response:* BPA believes that DSM is the correct first and long-term step. The Policy discussed in this ROD is in response to the supplemental generation.	Gil Gallegos, Grays Harbor PUD
BPA should schedule a series of public hearings at numerous sites around the region. BPA is moving too fast. *Response:* BPA has publicly discussed the power supply conditions facing the region--see page 9 of this ROD. The regional power emergency warrants timely action. Full consideration of all the issues raised in the public process will assure that thoughtful, if controversial, actions result.	Deb Smith, Montana

Comments and Responses	Commenter
Lost as to how BPA can believe that we will accept some of these policies. We are very willing to help out and work in a spirit of cooperation, but I do think that it is past time for BPA to do the same. *Response:* BPA is continuing to strive to work in a cooperative manner with our customers consistent with our responsibilities and obligations.	Tim Culbertson, Grant Co. PUD
The addition of these small generation projects can make an appreciable difference in the load/resource situation. *Response:* BPA expects that temporary small resources will provide a measurable benefit to the power situation in the short term.	Brian Skeahan, Klickitat PUD
The expedited timeframe within which BPA hopes to implement this proposal does not allow for adequate public participation in the decision-making process. *Response:* BPA gathered significant thoughtful and informed comment during the public process. This useful information caused several important changes in the Policy. The regional power emergency warrants timely action.	Graden Oehlerich, Montana EIC