

## **The Views of Cowlitz PUD on BPA's Proposed Changes to the Regional Dialogue Framework**

October 31, 2007

On October 19, 2007 BPA circulated a list of proposed modifications to its proposed Regional Dialogue Framework in Response to a Public Power Strawman on Product and Rate Design.<sup>1</sup> Cowlitz is pleased to see that BPA adopted a number of the customers' proposals in whole or in part, and we welcome BPA's collaborative approach to resolving the many difficult issues presented by the major changes envisioned in the Regional Dialogue. We share BPA's goal of tiering its rates to provide customers the incentives to participate actively in infrastructure development and sending the correct price signals to encourage economically sound behavior. We do feel a certain sense of measured progress with these new modifications, but we still have a few concerns with elements of them that seem to frustrate that goal.

Load Following with Dispatchable Resources. Cowlitz currently has contract provisions that require Cowlitz to operate its resources in a manner that minimizes, within the limits of the resources' capabilities, its peak loads on BPA. Such resource operations reduce the demands placed on BPA's increasingly scarce capacity. We were pleased to see that BPA has modified its initial Framework and no longer plans to restrict the available options for such resources to simply operating flat within each monthly diurnal period. This revision will be very beneficial to customers and to the Region generally by allowing more efficient use of the now existing resources, and reducing the need for new capacity.

We understand BPA's revised proposal to offer similar rights and obligations to those now in Cowlitz's contract with BPA, but not necessarily identical rights and obligations. For example, unexpected load changes during a month can make it impossible under our current contract to meet our peak requirement without also increasing our resources HLH energy output, which results in a "take or pay" penalty. We expect to work with BPA to improve how the contract works for both parties. We understand that BPA will expect long term commitments regarding how dispatchable resources are to be operated, which commitments will not be subject to year-to-year changes to reflect the customer's marketing decisions. We assume however that BPA will remain open to changes to the customer's resource commitments for reasons related to changes in the resource performance, or changes in the underlying retail loads.

Resource Support Services. Cowlitz is also pleased to see that BPA will offer customers the choice of acquiring Resource Support Service (RSS) from BPA to follow the natural fluctuation in resource output or alternatively allow customers to manage output variations with purchases to meet their resource commitments. It is unclear to us

---

<sup>1</sup> The Strawman and BPA's Response also addressed rate design. The Strawman rate design had unforeseen problems, and it is not likely to be supported by the publics. Therefore we do not address here the portion of BPA's Response that addressed rate design. We continue to work actively, and we believe productively, with BPA's rate staff to develop a rate design that will help separate Tier 1 and Tier 2 costs, reflects marginal costs, and is acceptable to the majority of your customers.

whether BPA will offer RSS for wind resources that customers intend to “grow into”. This will be an important element to a structure that intends to encourage resource development.

Flexibility to Operate Dispatchable Resources. BPA noted that customers will be permitted to operate gas-fired resources as they wished and they would be free to replace the output with market purchase as long as they meet their preestablished hourly HLH and LLH commitments. We were told that BPA is making a statement specifically about gas-fired generation, which will not apply to other resources. Such flexibility should not be limited to any particular class or type of resource. It is appropriate for BPA to hold customers to their commitments to meet load, but not to attempt to manage indirectly exactly how they meet such commitments.

Small Hydro. BPA's Response states that customers that dedicate existing small hydro resources to their load can receive a credit of 90% of the Mid-C index less PF charges for any secondary energy produced. We were told that such customers will not be permitted the option of marketing such secondary energy on their own without also having to declare hourly resource amounts. Although we approve of the 90% credit as an option, it is critical that customers retain the flexibility and the incentives to operate their resources as efficiently as possible. Hourly declarations do not accomplish this and would substantially reduce the amount of peak load reduction Cowlitz would be able to perform, and in turn substantially increase the amount of peak load BPA would be obligated to serve. The ability to sell the secondary on the market must be an option for the customer. However, customers should not be free to pick and choose on a real time basis whether to use the secondary energy in load or sell it into the market. Therefore, we recommend that BPA require customers to elect whether to sell the secondary or to use it in load for each entire commitment period when they provide their three-year notice.

More Flexibility in Resource Shapes for Load Following Customers. Cowlitz appreciates BPA's willingness to allow load following customers additional flexibility in the shapes in which they bring in resources to meet their retail loads. However, BPA remains overly restrictive in the shapes allowed for resources and those restrictions will frustrate some of the good aspects that BPA is attempting to create in other areas of its Regional Dialogue proposal. In the rate design discussion, BPA is pressing customers hard to accept full marginal-cost prices for Tier 2 rates and for the load shaping and marginal demands in Tier 1 rates. These are excellent ideas both because they will prevent unintended shifts of costs between Tier 1 and Tier 2 and because such pricing will encourage customers to take steps to lower the cost to serve their loads through DSM and other steps. Such steps can and should result in changing the shape of customers' retail loads. If a customer's load shape changes because of steps they have taken, or because the mix of loads they serve changes for reasons beyond their control, those customers should be allowed to bring resources in to serve their loads in their new load shape. Moreover, customers should be allowed to bring in resources to serve load in any shape that lowers, or at a minimum does not increase BPA's cost to serve them.

There does not appear to be any interest that BPA is furthering by locking customers in to the resource shape that their loads happened to exhibit in 2010, or in prohibiting customers from improving their load factor on BPA or changing the seasonality of their net loads on BPA to take more energy when BPA is surplus and less energy when BPA is deficit. It is very important to adjust periodically a customer's allowable resource shape to fit its changing load shape due to the length of time the proposed contracts will be in effect. These shapes should be subject to change for each commitment period. It is equally important to allow customers to respond appropriately to the price signals in BPA's rates, in part by allowing resource shapes like those described in the Public's Strawman proposal, all of which had operational benefits for BPA. We are not advocating allowing customers the ability to play off between BPA and the market in real time, and we fully support that customers be required to meet their resource commitments once they have been made.

BPA states that it will allow customers to bring in resources "in the shape of any actual physical resource." We support BPA's proposal to allow customer's to declare the output of any physical resource they develop or acquire to serve their load. Due to the complexity of financing certain types of resources, such as renewable resources that have associated tax credits, BPA could frustrate resource development if it requires that resources must be declared under §5(b)(1)(B) of the Northwest Power Act for the entire useful life of the resource as a precondition to bringing the resource to load in its natural shape. Contractual provisions that may be required by lending entities or by intermediaries needed to capture the tax benefits can make it impractical for a utility to commit the physical resource to its load for the full useful life of the resource. Therefore, BPA should allow customers with the rights to the output of a physical resource to bring such resource to load in the shape of the resource even if the customers is unable or unwilling to make a commitment to continue to retain the right to such resource indefinitely. Customers should not have to commit physical resources to load for any longer than the standard five-year commitment period for unspecified resources.

Again, Cowlitz PUD greatly appreciates the hard work and creativity of BPA's staff and management that are involved in this process, and we appreciate BPA's willingness to listen to customers, evaluate their ideas and, where appropriate, modify its initial thinking to accommodate customers' needs. We hope to continue to work with BPA to address some of the issues discussed here and further improve and refine the significant changes and improvements BPA is making in the way it helps customers to meet their load serving obligations.