

Committee on Resources

Witness Testimony

Testimony of

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Mr. Chairman, I am pleased to testify today on the progress of the Comprehensive Regional Review of the Northwest Energy System. The Regional Review was convened in January, 1996, by the governors of the four Northwest states to address the changes occurring in the electric power industry and to recommend appropriate policy directions for our region. The review is scheduled to deliver its report to the governors by the end of the year. The review is being managed by a steering committee of approximately 20 members, representing a broad cross section of interests in the region. Presently, four work groups are meeting to discuss various aspects of the utility industry in the Northwest to determine if consensus recommendations can be crafted. These work groups are: transmission; federal power marketing; conservation, renewable resources and public purposes; and, competition and customer choice.

Background

Across the nation we are observing dramatic changes in the electric utility industry. These changes are similar to those that occurred in other deregulated industries, including airlines, telephones and natural gas. The changes are similar but not identical. For example, how will transmission services be priced? Which retail customers will have direct access to wholesale markets and when? How will traditional "public purposes" of the electric power system be handled in the competitive future? Will stranded investments be created and how might the region or the four Northwest states deal with any stranded investments? In the Northwest, just as the rest of the country, these issues are also very important. In addition, the Northwest has a number of issues that are particular to this region. What should be the role of BPA in a competitive market? How does the region assure the repayment of the BPA debt as wholesale markets become increasingly competitive? Where should conservation and renewable resource responsibility reside in the new utility environment? These questions are unique resulting from BPA's traditional role in the region.

Fifty percent of the power in the Pacific Northwest has historically been supplied by the Bonneville Power Administration. BPA markets the hydro power produced at hydroelectric dams by the U.S. Army Corps of Engineers and the Bureau of Reclamation and the output of the nuclear plant produced by Washington Public Power Supply System. BPA also owns 80 percent of the high voltage transmission facilities within the region. Due to BPA's access to low cost hydroelectric power the region has had the lowest price power in the nation and BPA has been among the lowest price suppliers in the region. Today that is changing. BPA is faced with many of the same pressures affecting utilities in the rest of the country. Due to open access, low natural gas prices and large amounts of surplus electric generation capacity in the West, BPA's utility customers and their industries are being offered power at lower prices than BPA can provide. BPA has been working for several years to cut its costs and reduce its rates to be more competitive. However, today many power suppliers' prices are even lower than BPA's proposed rates.

Many things contribute to BPA's difficulties. Nuclear costs, federal debt and other commitments entered into many years ago must be paid. Programs that imposed costs but did not produce revenues such as conservation and the residential exchange, also contributed to BPA's difficulties. Fish and wildlife costs of the Northwest hydro system also were a contributing factor. Many believe that the competitive power market can no longer support full funding for all of these types of programs. The question thus becomes, if the market cannot support these programs, should these social objectives be pursued and who will fund them? Public power supports a vibrantly competitive bulk power market in the Northwest. We also believe BPA is an essential player in the Northwest, and believe the two, BPA and competitive markets, are mutually dependent.

The Comprehensive Regional Review

Last year, at the urging of the Department of Energy, Congress and many individuals and groups within the Northwest, the governors decided to convene a comprehensive review of the Northwest energy system. The primary goal of the review is to see if we could maintain an affordable, reliable power system, agree on the set of issues which were the most critical for the energy future of the region and recommend the best ways to resolve them within the region. The review is being managed by a steering committee, appointed by the four Northwest governors and is chaired by Chuck Collins, a former member of the Northwest Power Planning Council from Washington State.

Since January the regional review steering committee has examined the experience of other deregulated industries and attempted to learn the way that electric deregulation has been handled in other locations. These discussions have helped steering committee members to develop a common understanding and lexicon for analyzing the issues. In late March, the steering committee defined four working groups to begin in-depth analysis of the issues. Members of the steering committee serve as co-chairs of each work group and the work group meetings are open to all who are interested in participating.

Transmission

The transmission work group is looking at a number of technical issues relevant to the possible restructuring of the Northwest transmission system. In conjunction with the Northwest Regional Transmission Association (NRTA), the review has been examining various ways of pricing a region-wide transmission tariff. Various proposals for separating BPA's generation and transmission functions are being analyzed along with the appropriateness and possible scope of an independent system operator to coordinate transmission operations in the Northwest. Additionally, the review has been looking at the effects of establishing a single pool for all electrical transactions in the Northwest, and the effects of adding certain non-transmission costs to transmission charges.

While the technical work on these issues is still underway, it is safe to say that public power supports some degree of separation between BPA's generation and transmission functions. Work will also be done on developing an independent system operator or other organization that relies more on coordination than on centralization, because considerable skepticism has been expressed within public power on the desirability of an independent system operator with highly centralized responsibilities. There also seem to be problems with collecting non-transmission costs on the wires. If these cost adders are imposed, there is a real risk that additional generation will be installed close to load centers in order to avoid paying these charges. This means that the more charges that are placed on transmission, the less the system will be used, with consequent decreases in transmission revenues and increased costs.

Federal Power Marketing

This work group is examining the issues as they relate to BPA and its role in the region. The power marketing work group has focused on preferred futures for the power marketing functions of the Federal Columbia Power System. The group developed a set of consensus objectives for the federal power system. This list of objectives is included as Attachment 1. The federal power marketing work group is now developing alternative structures for the federal power marketing function. Work group participants were invited to submit proposals. Nine different proposals were put forward. The Public Power Council staff, for example, developed an option that retains many aspects of the current system. Our option preserves federal ownership and public preference rights with changes that reflect the new realities of the competitive power market. These changes include:

- Disaggregation of BPA's power and transmission functions
- Elimination of BPA's obligation to serve load growth
- Shared governance structures among BPA and its customers
- Freedom of entry and exit by customers and new power suppliers
- Freedom to pool and resell federal power

Other individuals and groups have suggested alternatives that include customer ownership of the power system under various allocation and auction models. Each alternative will be evaluated using common criteria. At this juncture, it is too early to endorse or disqualify any option.

The work group is also analyzing the effects of these different proposals on BPA's existing Treasury debt and its net billing obligations to the Washington Public power Supply System. The power marketing work group is working toward a consensus proposal that will be forwarded to the steering committee in July.

Conservation, Renewable Resources, and Public Purposes

This work group has drawn over 160 participants representing a wide range of interests. Discussions to this point have focussed on developing a consensus set of goals for conservation and renewable resources. The draft goals are included as Attachment 2.

In addition to goal-setting, the group has heard several proposals for accomplishing conservation objectives in a competitive utility future. Some of the mechanisms address funding for conservation, others address focusing the responsibility for conservation on the consumers who benefit from the conservation directly. The proposals range from a strictly market-based approach to conservation charges levied at the transmission or distribution level. For renewable resource development, a portfolio approach is being discussed. Public power is working to define a method of addressing conservation and renewable resource development in the future and will be presenting it to the work group this week.

The group was also tasked to quantify the costs and benefits of other broad-based public purposes such as irrigation, navigation, flood control, and recreation. This task is very difficult to pin down but a small sub group is working on developing estimates.

Competition and Customer Choice

The competition work group is tasked with making recommendations about how customers might have direct access to competing power suppliers. There is a lot of concern about the issues raised by this group and a fair amount of controversy. There are, however, some areas of agreement among the participants. These include:

1. Transmission should be open to all wholesale transactions;
2. Transmission should be separated from generation and from distribution;
3. If there is retail access for one customer group, there should be timely retail access for all customer groups;
4. There are a number of issues about the timing of direct access that will need to be worked out, but, in general, customers from one market segment should not be forced to wait too long while others are permitted market access; and
5. Some mechanism for protecting the smallest customers may be needed and the distribution utility may need to be the supplier of last resort.

The work group believes that its efforts are beneficial in developing a common understanding of the issues involved in retail competition. The work group is also hoping to be able to add to the understanding of competition issues in the region and nationally. The group is preparing to submit consensus recommendations to the steering committee in July.

Status of the Review

At this point, public power is pleased with the process of the regional review. Approximately 800 people have participated in the review either by attending the public meetings and expressing their concerns, participating in the various work groups or keeping up through the Internet. A background public information piece is available for groups to mail to their members and a communications plan is in place. BPA, utilities, industries, interest groups and others are participating. The process is moving according to an ambitious time frame which has the work groups preparing their consensus reports and forwarding them to the steering committee by early July. The steering committee will then develop its report. Once the report is drafted, public hearings will be held to solicit comments and, after revisions, the report will be finalized and submitted to the Governors. We expect that the report will recommend changes in both state and federal statutes.

We are pleased with the interest of the committee and we look forward to working with you in the future as the region

attempts to implement the recommendations from the regional review.

Thank you for the opportunity to testify before this subcommittee.

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