



Northwest Power and Conservation Council

Meeting Notes

February 13-14, 2018

Portland, Oregon

February’s Council Meeting was the first for Oregon’s two new members, Ted Ferrioli and Richard Devlin. The meeting covered a range of issues, from new resource planning and concern over Bonneville’s financial future, to fish survival rates and a global mitigation settlement at Albeni Falls Dam in northern Idaho.

All Council Members were in attendance, Council Member Tim Baker joined by phone. The next Council meeting will be in Portland, Oregon, on March 13 and 14, 2018.

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The Agenda

Worrisome trends cause concern for Bonneville’s financial future

Weak secondary revenue and an industry in transition may be new norm

Drawing on over 30 years of industry experience in wholesale power markets and natural gas pricing, Steve Kern, general manager for Cowlitz County PUD, shared his thoughts and analysis on Bonneville Power Administration’s current financial condition. He worries that at a time when the industry is experiencing dramatic changes, Bonneville may be moving toward a financial cliff unless they improve their ability to manage costs.

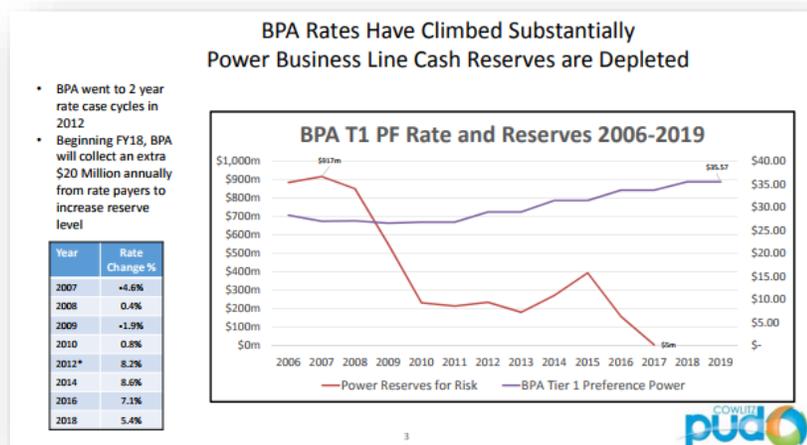
Looking at key trends, he said there is a fundamental shift and huge change from past short-term market dynamics. Increased court-mandated spill and fish and wildlife costs, an avalanche of zero marginal cost power, and regional renewable portfolio mandates; added to the persistently low natural gas forward market prices and weak secondary revenues paint a perilous picture for

Bonneville. “I’m here to help in any way I can to create a solution,” Kern said. “This time is different and I don’t see it rebounding as it has in the past.”

Kern spoke about the difficulty Cowlitz customers have facing another rate increase. Large customers are challenged by power prices and their competition has access to spot and lower-priced energy. “Who would have thought that the federal power system would be that far out of the money?” he asked. It’s a quantum shift in the marketplace and it is putting loads like ours at risk.

“We’re looking at end of the take-or-pay contracts,” he said. Bonneville forecasts a rate of \$48 per MWh in 2028, whereas we see short-term spot market in the low \$20s or \$30s. Who will sign up for BPA contracts, he asked.

And if Cowlitz or others cut back on firm contracts (post 2028), Kern continued, Bonneville will be forced to sell more power on the secondary market. If the secondary market remains low, the likely result is higher Bonneville wholesale rates which isn’t sustainable. “This is the cliff I worry about.”



Going forward, Kern recommended that BPA look for ways to control and reduce fish and wildlife spending, set firm operating expense reduction targets (such as 20 percent) across the board to achieve savings, and improve management of BPA’s power supply portfolio through additional hedging and/or completion of new creative power supply agreements.

Noting he had read a lot prior to his first meeting, Council Member Richard Devlin said that Kern didn’t mention BPA’s significant debt ratio. “During that period of recession, BPA cut or held rates and brought their reserves down,” Member Devlin said.

“In 2010, they looked at their debt structure, did a refinance and extended the term of those debts to keep rates lower for a period of time.” Now those debts are coming to bear and higher payments are due, he continued. BPA should bring down their debt ratio – but the only way to do that may be to increase rates, Devlin concluded.

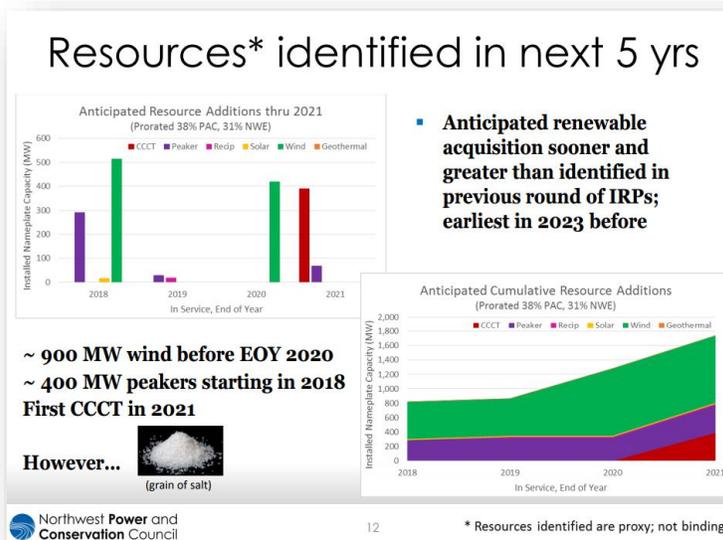
Kern said he tries not to second-guess previous decisions, but acknowledged Bonneville is in a very tough position and agreed Bonneville’s debt level is too high. With pressure to repay debt there is added pressure on rates which would leave Bonneville close to triggering a cost recovery adjustment clause (CRAC).

On BPA’s fish and wildlife costs, Member Ferrioli countered “spill isn’t optional if the court says you have to do it.” Treaty obligations and additional court orders limit the opportunity for cost containment. Given those scenarios I don’t think you can cut your way out of this mess, he said to Kern.

Member Tim Baker appreciated the timing of the presentation, adding Elliott Mainzer, BPA’s administrator, will be joining the Council at their April meeting. Member Yost said another way is to increase the secondary market. It would take convincing the governors and legislatures to quit buying renewable resources we don’t need, for energy we don’t need, he said.

IRPs show strategies to fill region's coal gap and meet renewable timelines

Gillian Charles, the Council’s energy policy analyst, said that over the next five years utilities have identified 400 MW of gas peakers, 900 MW of wind by the end of 2020, and a combined-cycle combustion turbine in 2021. It’s important to take Integrated Resource Plans (IRPs) with a heaping pile of salt because plans change, she said, and that includes the resource plans in the next five to ten years.



Compared to the last round of IRPs, the timeline for adding renewables has accelerated. Oregon amended their renewable portfolio standard (RPS) in 2016 to call for 50 percent RPS by 2040. And renewables are being spurred by the expiration of federal tax credits in 2020 and 2023 for large wind and solar PVs.

Utilities continue to experience uncertainty over environmental regulations. Carbon legislation has led to retirement and replacement scenarios for existing coal plants and Commission proceedings cast doubt on initial acquisition needs.

Charles sees a buildup of natural gas generation in IRP's to meet the gap with coal retirements in the future, based on her review, although utilities will be grappling with what is actually needed in the near term. For example, Portland General Electric is exploring replacing coal with biomass.

Energy efficiency is looked at as the least-cost, least-risk resource across range of scenarios, Charles said. And energy efficiency and demand-side strategies are keeping load growth low/flat and are delaying the need for resource acquisition. For the first time, demand response is to be developed and utilized for new peaking capacity resources.

A fundamental change in treatment and analysis of resource acquisition means we're seeing less resource-specific and more generic capacity versus energy need, Charles said.

Council emphasizes value of appliance standards

The Council voted to submit comments to the U.S. Department of Energy (DOE) on appliance standards, as recommended by staff. The Council has been involved in appliance codes and standards since 1987.

John Shurts, general counsel, said the overarching message in the comments is the process has worked well and has delivered a lot of value to the Northwest. It's also a huge part of the Seventh Plan resource strategy. In fact, codes and standards have accounted for over one-sixth of region's energy savings since 1980, he said. "We don't want to see that value lost," Shurts said. "We're always open to make it more efficient and effective."

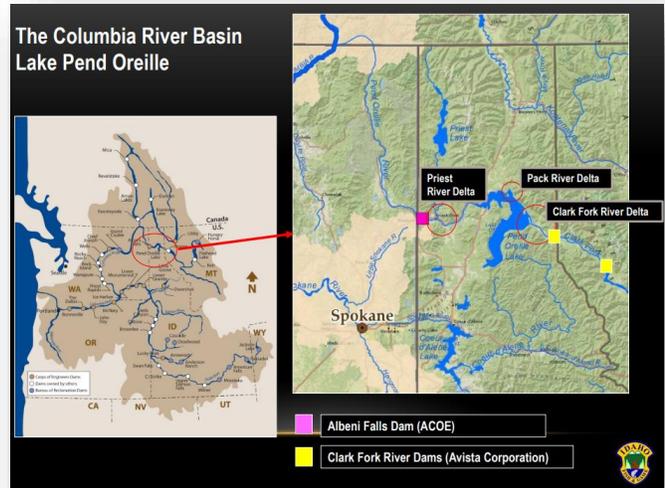
Albeni Falls settlement reached

After 10 years of negotiations, the state of Idaho and the Bonneville Power Administration have reached a global agreement in the amount of \$23.89 million for stewardship and mitigation of the wildlife impacts at Albeni Falls Dam. The dam, built by the Corp of Engineers, regulates the levels of Lake Pend Oreille and river flows downstream.

"This settlement is good for Idaho and good for the Bonneville Power Administration ratepayers. It provides funds to finish up needed shoreline protection projects, and it establishes an annuity intended to fund the future care and maintenance of Idaho's mitigated lands," said Council Member Bill Booth.

The agreement allows for the completion of the Clark Fork Delta Project and provides certainty and avoids protracted legal litigation. Finally, the agreement also covers operational impacts for at least the next 30 years when it will be reviewed. Without the agreement, Bonneville would be required to make annual mitigation payments to the state.

Ed Schriever, with Idaho Department of Fish and Game, said the agreement shifts the responsibility to the state. “There is and will be a need to protect that habitat,” he said. “It’s important to have a certainty of funding. It wasn’t easy to get there, but we have that comfort that we’re ready to assume those responsibilities in perpetuity,” he said. The operational loss agreement allows flexible winter operations in a way that doesn’t continue to degrade the delta and other important habitats.



Bonneville’s Dorie Welch said the agreement would maintain past wildlife mitigation actions, which will protect future ratepayer investments. “It will address operational impacts at the site, restoring ecosystem functions that not only benefit wildlife, but also fish species,” she said. It will also help costs be more predictable as Bonneville manages its overall budget. It will result in fish and wildlife savings as outlined in Bonneville’s recently published strategic plan.

Council Briefs

The Council welcomed their two newest members, each with a long history of serving Oregon.

Council Member Ted Ferrioli served in the Oregon Senate for 20 years. He was elected from District 30, which includes 11 counties, 34,000 square miles and parts of the Snake and Columbia Rivers. He said he has represented more incorporated cities, public utilities, jackrabbits, sagebrush and salmon than about anyone else. He said tribal issues, fish and wildlife, and productive rural landscapes are important issues to him. Member Ferrioli is serving on the Fish and Wildlife Committee and the Executive Committee.

Council Member Richard Devlin spent about the same period of time in the legislature, in both the Oregon House and Senate. Most of his time in the Senate was on the Budget Committee. He remarked that he’s comfortable with numbers and reads spreadsheets like some read novels. Member Devlin served in Marine Corps, public safety and in the private sector. He has been an elected official 31 out of the past 33 years. Member Devlin is serving on the Power Committee and the Public Affairs Committee.