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EXPECTED AT 9:30 A.M.  
JUNE 13, 1983

SUMMARY STATEMENT OF J. DEXTER PEACH, DIRECTOR  
RESOURCES, COMMUNITY AND ECONOMIC DEVELOPMENT DIVISION  
BEFORE THE  
SUBCOMMITTEE ON ENERGY CONSERVATION AND POWER  
COMMITTEE ON ENERGY AND COMMERCE  
U.S. HOUSE OF REPRESENTATIVES

We appreciate this opportunity to discuss the Bonneville Power Administration's capability and preparations to implement the Regional Power Plan adopted by the Northwest Power Planning Council under authority of the Pacific Northwest Electric Power Planning and Conservation Act. Within the region, there is no longer the urgent need to acquire new power supplies which was anticipated when the act was passed. Indeed, a pressing current problem is how to market the region's power surplus in a manner most economical for regional ratepayers.

Bonneville should be able to implement most, but perhaps not all, of the Council's Two-Year Action Plan. The Council's final Plan was adopted on April 27, 1983, and Bonneville's staff is still assessing its resource implications. Bonneville officials told us that the final Plan contained some "surprises"--like acquisition of combustion turbine capacity--which may be difficult for Bonneville to implement. The Council's Plan calls for Bonneville to schedule conservation and other resource acquisitions at levels which do not enlarge the power surplus, but which enable Bonneville to maintain a state of readiness for accelerating such acquisitions when there is a need for new power supplies.

Bonneville has made several recent organizational improvements, particularly in conservation and public involvement areas that reflect new responsibilities given Bonneville by the act. These changes occurred incrementally without the benefit of an overall organizational assessment of Bonneville which we recommended in 1981. Although Bonneville's changes should improve its ability to implement the act we continue to believe a comprehensive assessment by the Department of Energy and Bonneville officials would increase the likelihood that Bonneville's organization, programs, and staffing are fully capable of implementing the act.

The Council has requested Bonneville to provide by August 1, 1983, a schedule and work summary for implementing the Action Plan. The Council plans to issue a new 2-Year Action Plan biennially, but Bonneville follows an annual budget process with budget submission to the Office of Management and Budget by September of each year. Because Bonneville's budget should parallel the Council's Action Plan, and Bonneville's rates should provide the revenues needed to implement the Plan, it seems logical for Bonneville and the Council to jointly develop a synchronized planning, budgeting, and rate setting process for the region.

Regarding Northwest power surplus, firm power capability in excess of Northwest needs can be sold to California utilities and benefit both regions if legal restrictions on firm power exports can be addressed and intertie capacity between the Northwest and California can be expanded. California's utilities are reluctant to invest in intertie expansions until uncertainties are resolved about the quantity and price of surplus Northwest energy, and until legal restrictions on Bonneville's ability to sell firm power outside the Pacific Northwest are addressed. Bonneville officials are optimistic that 3 to 7 year contracts for about 700 MW of surplus Federal power will be signed with several California utilities late this summer. Bonneville also belongs to a Northwest regional marketing group which hopes to have long term sales contracts (in the range of 15 years) in place by mid-1984 for as much as 1,500 megawatts.

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UNITED STATES GENERAL ACCOUNTING OFFICE

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Mr. Chairman:

We appreciate this opportunity to discuss with you the Bonneville Power Administration's (Bonneville's) capability and preparations to implement the Regional Power Plan adopted on April 27, 1983, by the Northwest Power Planning Council (Council) under authority of the Pacific Northwest Electric Power Planning and Conservation Act. The act established the Council to develop a conservation and electric power plan, including a program to protect and enhance fish and wildlife. It also made Bonneville responsible for carrying out the Plan by meeting the power needs of its customers in a least cost manner, and by establishing programs to conserve electricity, develop renewable energies, protect fish and wildlife, and encourage public participation in the formulation of regional plans. Bonneville's programs are to further the multiple purposes of the act in ways which

are consistent with each other and with applicable environmental laws.

In 1980, when regional planning legislation was being debated in the Congress, large power deficits were predicted for the Pacific Northwest. Since that time, demand forecasts have been reduced significantly, and regional planners are now projecting power surpluses which may last for the next decade. Within the region, there is no longer the urgent need to acquire new power supplies which was anticipated when the act was passed. Indeed, a pressing current problem is how to market the region's power surplus in a manner most economical for regional ratepayers.

At your request, we examined Bonneville's capability to implement the Council's initial Plan, with particular emphasis on Bonneville's preparations to implement the Two-Year Action Plan, and help market the region's present surplus of electric power. We also inquired about institutional arrangements for implementing the plan, including integration of Bonneville's budgeting and rate-setting processes with the Council's planning process.

The attachment to this testimony contains our answers to specific questions referenced in your March 24, 1983, letter. We gathered considerable information on your questions, but because of time constraints did not have time to fully verify the accuracy of the data.

Our testimony and answers to your questions are based largely on our review of the act and its legislative background, interviews with Bonneville officials and Council staff members, and reviews of the Council's draft Plan and Bonneville's recent budget submissions and rate cases. We also relied on work we

have underway to reassess (1) Bonneville's debt repayment policies and (2) the need for increased intertie capacity between the Pacific Northwest and California.

My statement today contains four basic parts.

--First, comments on Bonneville's capability to implement the Council's Two-Year Action Plan.

--Second, an evaluation of the prospects for marketing the Northwest's surplus electric power.

--Third, comments on institutional arrangements between Bonneville, the Council, and other regional bodies for implementing the Plan.

--Fourth, comments on other matters.

BONNEVILLE'S CAPABILITIES TO  
IMPLEMENT THE COUNCIL'S ACTION PLAN

Bonneville should be able to implement most, but perhaps not all, of the Council's Two-Year Action Plan. The Council's final Plan was adopted on April 27, 1983, and Bonneville's staff is still revising its 1984 budget proposal and assessing the Plan's resource implications. Bonneville officials told us that the final Plan contained some "surprises"--like acquisition of combustion turbine capacity--which may be difficult for Bonneville to implement. In the face of projected power surpluses, the Council's Plan calls for Bonneville to schedule conservation and other resource acquisitions at levels which do not enlarge the surplus, but which enable Bonneville to maintain a state of readiness for accelerating such acquisitions when there is a need for new power supplies. Because the Action Plan only requires Bonneville to maintain a standby posture, it appears to us that

Bonneville has or can readily secure the staffing and revenues necessary to meet most of the Council's requirements for 1984 and 1985.

One aspect of Bonneville's capability to implement the act, which has concerned us since 1981, is Bonneville's organizational structure. On November 10, 1981, we testified that Bonneville's organization did not yet reflect the purposes of the act. We recommended that the Department of Energy--with advice from Bonneville, the Council, and the region's ratepayers--should examine and adjust Bonneville's organization, programs, and staffing to ensure its consistency with the act. Bonneville has made several organizational improvements since then and organizational units exist now at Bonneville, particularly in the conservation and public involvement areas that reflect new responsibilities given Bonneville by the act. These changes occurred incrementally over the last year and a half and without the benefit of an overall organizational reassessment. Although Bonneville's changes should improve its ability to implement the act, we continue to believe a comprehensive assessment by Department of Energy and Bonneville officials would increase the likelihood that Bonneville's organization, programs, and staffing are fully capable of implementing the act.

PROSPECTS FOR MARKETING  
THE REGION'S SURPLUS OF FIRM POWER

The projected size and duration of the region's firm power surplus is uncertain. Depending on which forecast of load growth is used, the projected surplus could last up to 18 years and exceed 3,000 megawatts for several years; or only last 4 years, with a peak of about 1,000 megawatts. As evidenced by the recent decision to suspend construction of one of the region's

large nuclear powerplants, forecasts of regional surplus also contain considerable supply uncertainties. Firm power capability in excess of regional needs can be sold to California utilities and benefit both regions if legal restrictions on firm power exports can be addressed and intertie capacity between the Northwest and California can be expanded to carry additional loads of surplus power. California's utilities are reluctant to invest in intertie expansions until uncertainties are resolved about the quantity and price of surplus Northwest energy, and legal restrictions on Bonneville's ability to sell firm power outside the Pacific Northwest are addressed.

Bonneville has been negotiating with California utilities since early 1983 for near-term sales of power on a firm basis for 3 to 7 years. Bonneville officials are optimistic that near-term contracts for about 700 MW of surplus Federal power will be signed with several California utilities late this summer. Bonneville also belongs to a group of Northwest industries and utilities which is exploring the potential for long-term sales (in the range of 15 years) of surplus regional power to California. This group hopes to have long-term sales contracts in place by mid-1984 for as much as 1,500 megawatts. The Council has pledged to work with the California Energy Commission, Bonneville, and Northwest utilities to secure agreements for the sale of firm surplus energy to California utilities.

INSTITUTIONAL ARRANGEMENTS FOR  
IMPLEMENTING THE ACTION PLAN

The Council's Action Plan has just been approved, and institutional arrangements to make it a reality will need to be developed, tested, and refined. The Council has requested

Bonneville to provide by August 1, 1983, a schedule and work summary for implementing the Action Plan. The manner in which regional utilities, municipalities, resource developers and consumers will participate in implementing the Plan will become clearer as Bonneville puts into practice its procedures for selling power, acquiring conservation, and developing renewable resource and cogeneration projects. The Council, as a policy, has stated that state and local governments must have a full opportunity to participate in implementing the plan, and will require consultation, financial and technical assistance, and other support.

Although there has been considerable cooperative interaction between Bonneville and the Council, a continuing effort will be needed to synchronize their respective planning efforts. We noted, for example, that

--The Council plans to adopt a new Two-Year Action Plan in December 1985 and to revise its plans biennially thereafter, but Bonneville follows an annual budget submission to the Office of Management and Budget by September of each year.

--The Council's Action Plan for 1984 and 1985 was adopted April 27, 1983, but on March 28, 1983, Bonneville proposed a revised set of power rates for the period November 1, 1983 through June 30, 1985. After that date Bonneville anticipates setting new rates on an as-needed basis, but not more often than annually.

Because Bonneville's budget should parallel the Council's Action Plan, and Bonneville's rates should provide the revenues needed to implement the Plan, it seems logical for Bonneville and the

Council to jointly develop a synchronized planning, budgeting, and rate-setting process for the region. However, the Council has not asked to play an active role in Bonneville's rate proceedings and has made no formal input to Bonneville's budgeting process. Uncertainty exists as to whether the Council's approach will prove sufficient to assure effective Bonneville implementation of the Action Plan.

#### OTHER MATTERS

With respect to your question about how Bonneville's rate structures can effect implementation of the Council's Plan, and how the interest of the region is represented in Bonneville's ratemaking process, we found that Bonneville's rate structure is still based on average costs which meld the low costs of older power plants with the high costs of newer plants. Although other rate structures (e.g. tiered or inverted rates) could provide Bonneville's customers with a better signal of today's power costs, Bonneville has declined to adopt such a structure because its revenues from power sales might be reduced by customer conservation or fuel switching at higher than anticipated levels. The Council staff would like Bonneville's customers to get a better signal of what it costs to produce new energy supplies, but is unsure as to how such signals should be given. The Council is planning to study this question further.

Public representation in Bonneville's rate case is provided by a series of meetings throughout the region at which public comments are invited, and by the quasi-judicial rate hearings at which testimony is presented and witnesses cross-examined by interest groups designated as "parties" by Bonneville. The Council



has not asked to become a party to the rate proceedings but is receiving the rate case documents. Although the Council has not become a party, the Council staff considers the rate case process as not readily accessible or affected by the public generally because of its complexity.

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In summary, Mr. Chairman, we found that the Council's first Two-Year Action Plan envisions substantial power surpluses, and with some exceptions, should be feasible for Bonneville to implement. The plan generally requires Bonneville to develop and maintain resource acquisition capabilities, rather than to make a series of difficult or costly acquisitions. Institutional arrangements between Bonneville, the Council, and other regional bodies for implementing the Action Plan are in an evolutionary stage and will need to be monitored and adjusted with experience. Bonneville and the Council should synchronize their planning, budgeting, and rate-setting processes.

With respect to prospects for marketing the region's firm power surplus, Bonneville and the Council are both supportive of regional efforts to negotiate sales to California utilities, although there is considerable uncertainty as to the size and duration of the surplus. Bonneville officials are working with regional interests to negotiate near-term sales of up to 700 megawatts, and long-term sales of up to 1,500 megawatts. Several legal and institutional impediments must be addressed to conclude these sales.

This concludes my prepared statement. I will be pleased to respond to any questions you may have.

QUESTION 1a:

Determine if BPA's proposed 1984 budget is consistent with the Plan, particularly the Two-Year Action Plan.

ANSWER:

Our review of the Council's Plan and BPA's revised fiscal year 1984 budget, which BPA submitted on May 17, 1983, to the Department of Energy and the House and Senate Subcommittees on Energy Water Development, supplemented by discussions with BPA officials and the Council's staff, indicated BPA's revised budget appears consistent in many respects with the Council's Two-Year Action Plan. As shown in the schedule below, most programs in the Council's Action Plan are identified and allotted funds in BPA's revised fiscal year 1984 budget and its preliminary fiscal year 1985 budget.

It should be noted, however, that it is somewhat speculative to judge consistency at this time because BPA's budget proposals, including its revised budget submission of May 17, 1983, may need further revision. Because of depressed economic conditions, BPA has been reassessing its program levels and, in turn, its revenue needs. Furthermore, BPA's staff is in the process of reevaluating program levels in relation to the Council's final Plan which contained some items not anticipated by BPA. These evaluations are ongoing, and will not be completed until August 1983, shortly before BPA concludes its rate making process.

At the February 24, 1983, congressional budget hearings before the House and Senate Subcommittees on Energy and Water Development, BPA's Administrator indicated that funding levels might be changed for some programs described in BPA's

Schedule Comparing the Council's Two-Year Action Plan,  
BPA's May 1983 Revised Fiscal Year 1984 Budget Document, and  
BPA's Fiscal Year 1985 Preliminary Budget Data

<u>Programs in Council's Action Plan</u>	<u>Dollars in BPA's May 1983 revised FY 1984 Budget (millions)</u>	<u>Dollars in BPA's Preliminary FY 1985 Budget (millions)</u>
RESIDENTIAL CONSERVATION	\$134.7	\$130.8
COMMERCIAL CONSERVATION	9.3	21.2
INDUSTRIAL CONSERVATION	4.3	10.2
IRRIGATION CONSERVATION	2.1	2.9
POWER SYSTEM CONSERVATION	--	--
STATE AND LOCAL GOVERNMENT CONSERVATION	17.5	27.3
HYDROELECTRIC OPTIONS	5.3	4.6
RENEWABLE RESOURCES <u>1/</u>	9.7	10.1
RESOURCE ACQUISITIONS AND ASSISTANCE <u>2/</u>	1.1	2.0
STUDIES OF ENERGY MARKETS, ENVIRON- MENTAL COSTS AND BENEFITS, AND SURCHARGES	--	--

1/Studies of renewable resource research, demonstration, and development technologies, including biomass, wind, geothermal, solar, hydropower, and modification of conventional technologies to evaluate potential for commercial application.

2/Developmental and preconstruction studies for the development of resources (combustion turbines, cogeneration, and large thermal plants) which will be available to meet the energy deficits forecast for the 1990's.

congressional budget of January 31, 1983. BPA was requested to submit the changes to its fiscal year 1984 budget when they were finalized. At about the same time, BPA was preparing to initiate its rate making process to set power rates for the 20 month period from November 1, 1983 to June 30, 1985.

BPA's preliminary rate proposal, to have been issued February 28, 1983, was delayed one month because the preliminary proposal indicated a rate increase for BPA's preference customers of up to 45 percent. On February 18, 1983, BPA's Administrator stated that such a rate increase was unacceptable under existing economic conditions and that BPA would need to reduce its expenditures to a minimum. He cited reduced demands and revenues, economic recession, weak industrial markets, and poor regional and export markets for power surpluses as necessitating factors.

BPA then initiated a cost reduction effort which reduced anticipated program expenditures for fiscal year 1984. These reductions were reflected in BPA's preliminary wholesale rate proposal announced on March 28, 1983, and are being used during the rate hearings now underway.

BPA's May 17, 1983, revised budget showed a \$123.0 million (about 5 percent) total reduction from the initial budget submitted on January 31, 1983. The following chart illustrates specific reductions BPA made in allotments for priority resource acquisitions.

Table Showing Reductions Between  
Fiscal Year 1984 Congressional Budget and  
May 1983 Revised Budget  
 (in millions)

	<u>Jan. 31, 1983</u> <u>Congressional</u> <u>budget</u>	<u>May 1983</u> <u>Revised</u> <u>budget</u>	<u>Difference</u> <u>increase</u> <u>(decrease)</u>
<u>Conservation Acquisitions</u>			
Residential	\$219.6	\$134.7	\$ (84.9)
Commercial and Industrial	66.6	15.7	(50.9)
Public Agencies and Customer	29.9	19.7	(10.2)
Program Development	<u>22.9</u>	<u>25.2</u>	<u>2.3</u>
Total	\$339.0	\$195.3	\$(143.7)
Less External Financing	<u>(193.9)</u>	<u>(58.4)</u>	<u>(135.5)</u>
BPA Financing	<u>\$145.1</u>	<u>\$136.9</u>	<u>\$(8.2)</u>
<u>Other Resource Acquisitions under</u> <u>the Regional Act</u>			
Resource Acquisition	.2	.5	.3
Small Resources	3.4	.5	(2.9)
Billing Credits	4.4	.5	(3.9)
Preconstruction Assistance	1.1	.1	(1.0)
Option	5.6	5.3	(.3)
Renewable Resources RD&D	<u>11.9</u>	<u>9.7</u>	<u>(2.2)</u>
BPA Financing	<u>\$ 26.6</u>	<u>\$ 16.6</u>	<u>\$(10.0)</u>

A member of the Council's staff stated that the staff believe BPA's budget generally includes the Council's planned activities. However, they are concerned that BPA's revised program levels, as described in the rate hearings, may not provide sufficient funding to accomplish the Council's energy savings goals for the commercial, industrial, irrigation, and new home construction conservation activities. BPA and Council officials told us they have been meeting and will continue to meet to determine if BPA has properly interpreted its responsibilities under the Plan and provided sufficient funding to carry out those responsibilities. This effort will assist BPA to develop and submit to the Council by August 1, 1983, a schedule and work plan for accomplishing BPA's responsibilities under the Action Plan.

QUESTION 1b:

Does BPA have the programmatic capability to implement the Plan? As part of this answer, please provide the Subcommittee with a report on the status of BPA's Priority 1-3 resource acquisition programs, comparing them with (1) the status of such programs, as reported to the Subcommittee in testimony submitted by BPA to the Subcommittee in conjunction with its hearing on implementation of the Regional Act held on November 11, 1981, and (2) with representation made by BPA to the Subcommittee in such testimony and during such hearing regarding the development of such programs over time?

ANSWER:

Bonneville should be able to implement most, but perhaps not all, of the Council's Two-Year Action Plan. The Council's final plan was adopted on April 27, 1983, and Bonneville's staff is still assessing its resource implications. Bonneville officials told us that the final Plan contained some "surprises"--like acquisition of combustion turbine capacity--which were unanticipated and may be difficult for Bonneville to implement. In the face of projected power surpluses the Council's plan calls for Bonneville to schedule conservation and other resource acquisitions at levels which do not enlarge the surplus, but which enable Bonneville to maintain a state of readiness for accelerating such acquisitions when there is a need for new power supplies. Because the Action Plan only requires Bonneville to maintain a standby posture, it appears to us that Bonneville has or can readily secure the staffing and revenues necessary to meet most of the Council's requirements for 1984 and 1985.

The following chart illustrates the differences between estimated conservation expenditures and energy savings for fiscal years 1982-1987 as envisioned at the time of the 1981 hearings and recent estimates developed in conjunction with BPA's 1983 rate case.



## BPA Conservation Plans

<u>Sector/Program Area</u>	<u>Expenditures and savings presented during 1981 hearings</u>		<u>Expenditures and savings per 1983 rate case</u>	
	<u>Total funding FYs 1982-87</u>	<u>Estimated energy savings by FY 1987</u>	<u>Total funding FYs 1982-87</u>	<u>Estimated energy savings by FY 1987</u>
	<u>(\$000)</u>	<u>(average MW)</u>	<u>(\$000)</u>	<u>(average MW)</u>
Residential Sector	\$1,679,810	641.2	\$574,000	183.0
Commercial and Industrial Sector	332,830	322.2	38,000	3.0
Assistance to Customers and Public Agencies	268,390	169.1	88,000	33.0
Research and Technical Studies	15,750	0	68,000	0
Less Undistributed Reduction	<u>(20,000)</u>	<u>(11.0)</u>	<u>_____</u>	<u>_____</u>
	<u>\$2,276,780</u>	<u>1,121.5</u>	<u>\$768,000</u>	<u>219.0</u>

In November 1981 when BPA testified before the subcommittee, regional forecasters were predicting severe energy deficits. Demand forecasts now show significant reductions and the forecasters are projecting energy surpluses that could last well into the next decade. As a result, BPA has reassessed and reduced its energy acquisition activities to levels considerably below those reported in 1981. Further discussed in Question 1a above, BPA recognized in March 1983 that depressed economic conditions were further reducing energy demand and revenue collection. In May 1983 BPA reduced its proposed 1984 budget by \$123.0 million including a reduction in planned resource acquisitions.

Of the planned conservation activities described in the November 11, 1981, oversight hearing, Bonneville has: (1) signed contracts with each of the four Northwest States to implement a program to improve energy efficiency in institutional buildings, and (2) entered into cooperative agreements with each of the four Northwest States to support a variety of types of technical assistance to local governments and small energy users, to assist in energy efficiency planning and operations. Bonneville is in the process of offering a commercial building energy audit program to its utility customers.

Regarding priority 2 and 3 resources (renewable energies and high efficiency thermal generation), BPA has made no acquisitions under the act since 1981. BPA has entered into agreements to study seven demonstration projects of advanced renewable technology including wind, hydro, solar, and biomass projects. In addition, BPA is in the process of developing a small resource

program designed to acquire generation from smaller priority 2 and 3 resources.

Acquisition of priority 2 and 3 resources was included in the Council's Two-Year Action Plan which directs BPA to:

--Acquire options on six categories of hydroelectric facilities as follows:

1. An existing non-power dam with greater than 15 MW capacity.
2. An existing non-power dam with between 5 and 15 MW capacity.
3. A new facility with greater than 25 MW capacity.
4. A new facility with between 10 and 15 MW capacity.
5. A new facility with less than 10 MW capacity.
6. A facility with an exemption from the FERC licensing process.

--Develop and implement a geothermal demonstration program that guarantees the purchase of the first 10 average MWS generated at the most promising site in the Region.

--Acquire existing natural gas combustion turbine capacity and petition the U.S. Department of Energy for an exemption under the provisions of the Fuel Use Act.

The Council's plan requires BPA to develop and submit by August 1, 1983, a schedule and work plan for implementing the Two-Year Action Plan. BPA has established a task force to address the requirements of the Action Plan and to consult with the Council and its staff on resource acquisition issues.

QUESTION 1c:

Is Bonneville appropriately organized to implement the Plan?

ANSWER:

On November 10, 1981, we testified that Bonneville's organization did not reflect the priorities of the Act and needed improvement to ensure effective implementation of the Act's new priorities. Earlier, on April 8, 1981, we had written a letter to the Department of Energy (DOE) suggesting that it, in conjunction with BPA, comprehensively examine BPA's organization and thoroughly study organizational alternatives, program options, priorities, and funding levels. DOE's response stated that BPA did not believe such a study was needed at that time since the new functions stemming from the Regional Act largely represented additions to existing programs rather than alternatives to the existing programs. Our current examination disclosed that neither DOE nor BPA has conducted a comprehensive study of BPA's organization, although BPA has taken several steps to emphasize its new responsibilities under the Act.

The following paragraphs describe our findings in 1981 and the organizational changes subsequently made by BPA.

--In 1981, the conservation function, the highest resource priority in the Act, was one of six divisions under BPA's Office of Power Management. Further, the senior executive position established by the Act with responsibility for conservation and direct-application renewable resource programs was charted as a staff position reporting to BPA's Administrator, but without direct control of conservation resources and programs. In February 1982,

BPA established the Office of Conservation headed by the senior executive who has direct control of conservation activities and reports directly to the Administrator. The primary function of this Office is to plan, develop, and evaluate Bonneville's energy conservation and direct-application renewable resource policies and programs.

--In 1981, a responsibility center for development of renewable energy resources, assigned second resource priority in the Act, did not appear on BPA's organizational chart, although a Thermal Power Branch did. A responsibility center for renewable energies does not yet appear on BPA's chart, although in May 1982 the Division of Resource Development and Acquisition was established in the Office of Power and Resources Management. This division is responsible for planning and acquiring resources and generating resource options of all types with no organizational distinction between the various resource priorities.

--In 1981, BPA's organizational chart showed no responsibility centers for enhancement of fish and wildlife or public participation in power planning. These important functions were assigned to small subunits within the Office of Power Management. In May 1982, the Fish and Wildlife function was elevated to division status but remained in the Office of Power and Resources Management. This new Division has responsibility for managing the

implementation of fish and wildlife aspects of the Northwest Power Plan. In December 1982, the public involvement function was elevated to the Office of the Administrator. This function is directed by the Assistant to the Administrator, External Affairs, who reports directly to the Administrator.

--In 1981, a responsibility center for environmental concerns was assigned to the Office of Management Services which included a variety of auxiliary functions such as administration, personnel management, and information services. In late 1981, an environmental analysis branch was established in the Division of Land Resources, Office of Engineering and Construction. In early 1982, an environmental specialist was hired as a part of the Technical Support Branch, Division of Technical and Marketing Support, Office of Conservation. In mid-1982, BPA established an environmental analysis and review group reporting directly to the Assistant Power Manager for Natural Resources and Public Services, Office of Power and Resources Management. The responsibility center for environmental concerns remains in the Office of Management Services and coordinates the efforts of the environmental groups in the Offices of Engineering and Construction, Conservation, and Power and Resources Management.

These organizational changes should improve BPA's ability to implement the Council's Action Plan and to address the thrust of the act, especially with respect to the conservation and public

involvement areas. However, these changes occurred incrementally over the last year and a half and without the benefit of an overall organizational reassessment. We continue to believe a comprehensive assessment by DOE and BPA would increase the likelihood that BPA's organization, programs, and staffing are fully capable of implementing the act.

QUESTION 1d:

Does BPA possess sufficient staff resources to implement the Plan?

ANSWER:

Time constraints precluded an assesment of BPA's staff resources and staffing patterns, but we believe that a complement of about 210 full-time employees under appropriate management and direction should be sufficient to carry out BPA's rather modest role under the Action Plan for fiscal years 1984 and 1985. The Action Plan generally requires BPA to develop and maintain resource acquisition capabilities, rather than to make a series of difficult or costly acquisitions.

The following schedule shows, as of April 30, 1983, the total number of full-time employees in each office of BPA, and how many of these employees are assigned to functions directly related to implementing the Council's Plan.

BPA officials stated that they plan to initiate an in-house Workload and Staffing Utilization Study about July 1, 1983. While this study may provide useful information on existing workloads and productivity, we understand it will not include a comprehensive assessment of BPA's organizational structure and capability to meet the requirements of the act. We believe that such a study should be made in conjunction with the assessment discussed in question 1c above to assure that BPA has sufficient staff and appropriate functional units to effectively implement the act and the Council's Plan. Such a study should also help BPA to effectively react to future changes in the Council's Plan.



Schedule Comparing Total Number of BPA Employees with  
Number of Employees in Activities Relating to  
Implementation of the Council's Plan  
 (as of April 30, 1983)

<u>BPA Organization</u>	<u>Total BPA<sup>1/</sup> employees in organization</u>	<u>Employees<sup>1/</sup> implementing Plan</u>
Office of the Administrator	77	
Assistant to the Administrator for External Affairs - Public Involvement		8
General Counsel		
Power and Conservation Services		9
Assistant to the Administrator for Council Liaison		2
Office of Financial Management	131	
Office of Engineering Services	1,320	
Division of Resource Engineering		
Conservation Engineering Branch		10
Division of Land Resources		
Environmental Analysis Branch		25
Office of Conservation	75	
Office of the Assistant Administrator		10
Division of Planning and Evaluation		20
Division of Program Design and Management		21
Division of Technical and Marketing Support		24
Office of Regional Operations	1,148	21 <u>2/</u>
Office of Power and Resources Management	341	
Natural Resources and Public Services		11
Resources Planning and Acquisition		2
Division of Fish and Wildlife		18
Division of Resource Development and Acquisition		18
Division of Power Resources Planning Environmental, Fish, and Wildlife Section		1
Office of Management Services	295	
Environment		<u>10</u>
Total	<u>3,387</u>	<u>210</u>

<sup>1/</sup> Permanent full-time employees only.

<sup>2/</sup> Permanent full-time employees located at 4 area offices.

QUESTION 1e:

Does BPA have the revenue resources to implement the Plan? Does BPA presently propose to finance resource acquisition through borrowing rather than through rates and, if so, from what sources, in what amounts, and when?

ANSWER:

BPA is currently reviewing the Council's Two-Year Action Plan, in detail, to determine what specific revenue resources will be required to implement it. That review has already disclosed one requirement in the Council's final Plan which BPA had not provided for in either its current rate case or its revised 1984 budget. This is the Council's requirement that BPA acquire the existing natural gas combustion turbine capacity. BPA is currently preparing estimates of the cost of such an acquisition. Until BPA's review is completed in August 1983, uncertainty will exist as to whether BPA will have sufficient revenue resources to implement all aspects of the Council's Action Plan.

For Fiscal year 1983, BPA expects actual revenues will be short of its projections by over \$300 million. BPA's revenue problems result from not selling as much power as projected. As pointed out in a June 16, 1981 GAO report 1/, and in another report soon to be issued, BPA's unscheduled approach to repayment has resulted in repeated deferrals of debt payments due the U.S. Treasury.

Bonneville's revenue resources for fiscal year 1984 are projected at \$2.7 billion, and its budget totals \$2.6 billion.

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1/"Policies Governing the Bonneville Power Administration's Repayment of Federal Investments Need Revision," EMD-81-94, June 16, 1981.

BPA has budgeted its fiscal year 1984 resource acquisitions at \$211.9 million. Of this amount, \$195.3 million will be used for conservation acquisitions, and \$16.6 million will be used for resource acquisitions under the Regional Act. (See question 1a)

The fiscal year 1984 resource acquisitions under the Regional Act of \$16.6 million will be financed from power rates. The conservation acquisitions of \$195.3 million will be funded in the following manner:

Fiscal Year 1984 Conservation Acquisitions

<u>Funding Source</u>	<u>Amount</u>
	(millions)
Power rates	\$ 15.9
Borrowed from Treasury	121.0
External financing	<u>58.4</u>
Total	<u>\$195.3</u>

The Regional Act authorizes BPA to use up to \$1.25 billion in loans and grants for conservation and renewable resource activities, as provided for in advance in annual appropriation acts. However, due to annual borrowing ceilings imposed by OMB, BPA estimates that financing from external sources will be necessary to supplement the Treasury borrowing. BPA is studying various external options for financing its conservation acquisitions, including the use of tax-exempt bonds by regional entities implementing BPA's conservation program.

QUESTION 1f:

Are BPA's proposed rates consistent with implementation of the Plan? In particular, is the manner of recoupment of the costs of acquiring certain conservation resources through rates and/or through fees outside of rates consistent with acquisition of the conservation resource as proposed under the Plan?

ANSWER:

The Council's Plan does not specify how BPA should set its rates. Clearly, however, BPA's rates are important to successful implementation of the Council's Plan in at least two aspects. First, the rates must be set at a level which will provide BPA with sufficient revenues to implement the Two-Year Action Plan. Secondly, BPA has the option of structuring its rates in a manner which encourages wholesale customers to conserve electric power and/or develop supplemental power sources such as cogeneration or renewable energy projects. As discussed in question 3b, BPA has declined to adopt tiered or inverted rate structures which might further these purposes.

It is premature to judge whether or not BPA's proposed rates will be sufficient to fund all aspects of the Council's Action Plan. BPA officials are currently reviewing the revised Plan to assess its resource implications. Because the Action Plan generally requires BPA to develop and maintain resource acquisition capabilities rather than to make a series of costly or complex acquisitions, it seems likely that BPA's 1983 rates will prove sufficient to fund most of the Council's requirements for 1984 and 1985. BPA officials told us that the Council's revised Plan has some "surprises" in it--such as acquisition of combustion turbine capacity--which could prove difficult for BPA to implement in terms of revenues or staff resources.

According to a member of the Council's staff, the Council would like BPA's customers to get a better signal of what it is actually costing to produce new energy supplies (that is, marginal cost) than is provided by the average costs of old and new supplies which BPA's melded rates depict. However, the Council is not sure how the marginal cost signals should be given, and is planning to study this question further.

With respect to recoupmnt of conservation costs, we found that BPA is using two methods (rates and fees) to recover conservation costs from those who benefit from the BPA-financed conservation program. To participate in BPA's conservation program, a utility must become a BPA customer by signing a BPA power sales contract. Customers who purchase their power supplies from BPA, pay for their shares of the conservation program through BPA's rates. Other customers who are eligible for the BPA conservation program, but who generate their own power and do not purchase all their power supplies from BPA, are charged a fee to help pay for the costs of conservation not recovered through BPA sales. Within the region 13 principle generating utilities--7 publicly-owned and 6 investor-owned--as well as some smaller utilities, would be subject to conservation fees if they participate in BPA's conservation program.

A staff member of the regional council said that this system of rates and fees appears to be consistent with the Plan. He told us that the fees charged will not be based on the amount of energy conserved, and thus should not act as a disincentive to conserve energy. He indicated, however, that some utilities which generate their own power do not like the fees and may

decline to participate in the conservation program. He said these generating utilities fear they will pay large conservation fees but receive little conservation benefits.

QUESTION 2a:

According to the Plan, and other regional forecasts, what is the size of the surplus and for how long will it last?

ANSWER:

Depending on which forecast of regional load growth is used, the amount and duration of the region's projected firm surplus can vary widely. Recent regional forecasts contain electrical demand growth rates as shown in the table below:

<u>Regional forecasts</u>		<u>Percent of growth</u>			
<u>Organization</u>	<u>Date</u>	<u>High</u>	<u>Medium</u>		<u>Low</u>
			<u>(high)</u>	<u>(low)</u>	
BPA	July 1982	2.4	--	1.6	0.9
PNUCC <u>1/</u>	March 1983	--	2.2	--	--
Council	April 1983	2.5	2.1	1.5	0.7

1/The Pacific Northwest Utilities Conference Committee (PNUCC) forecast only contains one rate of 2.0 which, when adjusted for over 1,200 MW of conservation-met loads, gives an effective rate of 2.2.

Note that the Council's four growth forecasts (low, medium low, medium high, and high) encompass all growth projections made by BPA and PNUCC.

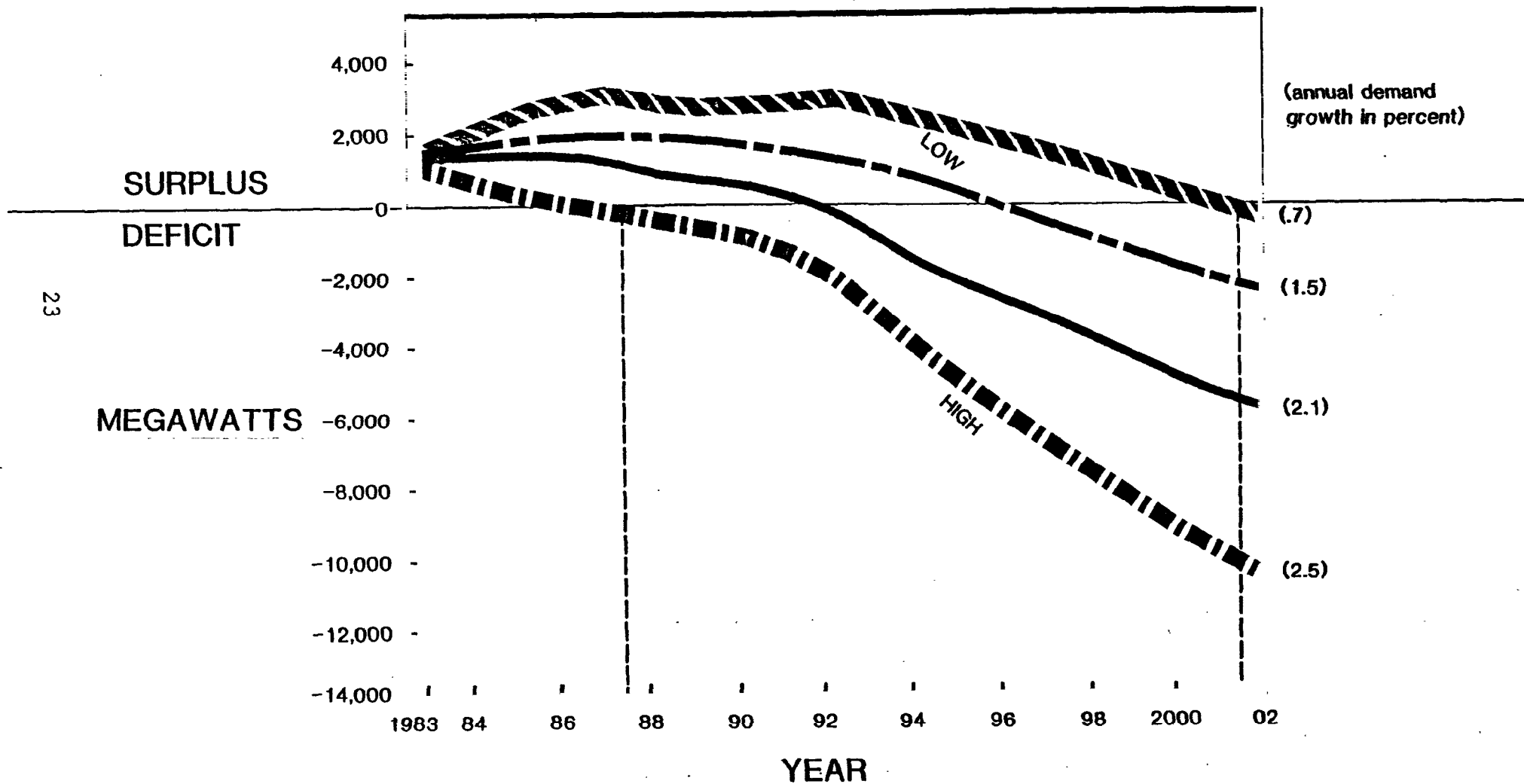
Based on the Council's forecasts, firm power surpluses could peak around 3,400 megawatts (MW) and last up to 18 years, or reach 1,200 MW and last about 4 years as shown in the following chart.

The chart must be viewed with an understanding of certain ground rules and assumptions:

- Problems with the timely completion and successful operation of several large thermal plants could affect the

# Surplus and Deficit

Assumes no conservation or consumer reaction to price



Source: Northwest Power Planning Council



size and duration of the projected surplus. For example, on May 27, 1983, a decision was made to suspend construction of Washington Nuclear Plant 3. The following completion dates and anticipated contributions from these plants are included in the Council's forecast:

<u>Plant name</u>	<u>Scheduled in-service date</u>	<u>Anticipated energy contributions (average MWs)</u>
<u>Nuclear</u>		
Washington		
Nuclear Plant 1	1988/911/	813
Nuclear Plant 2	1984	715
Nuclear Plant 3	1986	806
<u>Coal</u>		
Colstrip 3b	1984	343
Colstrip 4b	1985	343
Valmy 2	1985	<u>87</u>
Total		<u>3,107</u>

1/In the Council's high and medium high growth forecasts, this plant came on line in 1988 and in the low and medium low growth forecast, it comes on line in 1991.

- Unexpectedly high demand growth for electricity (such as might result from substitutions of electricity for natural gas in space heating) could reduce the region's surplus more quickly than anticipated.
- The surpluses projected do not reflect the impacts of BPA-backed conservation programs or conservation induced by future rate increases.

--The chart depicts firm surplus calculated on a "critical water year" basis--i.e., it assumes repeated occurrence of the driest period once in about every 45 years. In an average water year, an additional 3,000 MW of energy is available.

QUESTION 2b:

What are the options for sale of such surplus within the Region?

ANSWER:

As explained below there are options for the sale of non-firm surplus within the region, but none for firm surplus.

Non-firm Surplus

The Pacific Northwest's electric generating system is predominantly hydroelectric. The energy that can be produced in a hydroelectric system varies widely from year to year, depending on the amount of precipitation. If sufficient storage were available, the excess water from a good water year, could be stored for use in a poor water year. However, the Northwest's Columbia River Storage System can store only about 25 percent of the annual water run off. As a result, the Northwest to a great extent, generates electricity from water as it is available.

Because the hydroelectric generation is so variable from year to year, the Northwest plans and builds powerplants to provide reliable or firm energy as though the most critical drought on record will occur every year even though this is only expected to occur once in every 45 years. Hence, years when water run-off is greater than critical, which is most of the time, non-firm energy is available which is surplus to the Northwest needs. Under average water conditions (an average of historical water years) about 3,300 average annual megawatts of this non-firm energy is available primarily in the spring and early summer.

In March, BPA took steps to market more non-firm energy within the region on a short-term basis (about 6 months), provided such power sales did not reduce its firm loads. As of May 20, it had sold 346 MW to five aluminum companies and 13 MW to other industries. Such sales were also made to four utilities totaling 153 MW. BPA is also interested in selling non-firm energy to meet seasonal irrigation loads.

The Council's Plan states that BPA should actively develop additional markets within the Region for sale of non-firm energy. The Plan suggests such possibilities as installing electric boilers in commercial and industrial activities now using fossil-fueled boilers and providing interruptible service to irrigated agriculture.

#### Firm Surplus

Surplus firm energy only exists when generation under critical water year conditions exceeds expected firm loads. Unless unexpected new loads materialize, there will be no market within the region for projected firm power surpluses.

QUESTION 2c:

What are the options for sale of such surplus, on a firm basis, outside of the region?

ANSWER:

Firm power sales outside the Northwest currently are being explored for both near-term and long-term potentials. For the near-term, BPA has been negotiating with California utilities since early 1983 for the sale of power on a firm basis for a period of about 3 to 7 years. BPA is optimistic that near-term contracts totaling about 700 MW of surplus power will be signed with several California utilities late this summer.

BPA is participating with a Northwest regional marketing group, consisting of representatives from public and private utilities and BPA's industrial customers, in discussions with California utilities to explore the potential for long-term sales (in the range of 15 years) of surplus power. The group's target dates for long-term sales include reaching agreement on principles for negotiating contracts by July 1983, and having long-term contracts in place by July 1984 for as much as 1,500 MW. However, constraints could impact on the progress of this effort. The constraints are discussed further in question 2d.

QUESTION 2d:

What are the technical (i.e., transmission capacity) and legal obstacles, if any, to sale of the surplus, on a firm basis, outside of the Region, in particular, to California utilities? One such obstacle is said to be the 60-day pull-back requirement for sales outside of the Region, as incorporated by reference by section 9(c) of the Regional Act. However, section 9(d) of the Regional Act establishes that this requirement does not apply to certain "new non-Federal resources." In that conservation under the Regional Act is treated as a resource and that the sale of the surplus outside of the Region can be seen as the sale of a portion of the conservation resource, does not section 9(d) provide legal authority for a sale of a portion of the surplus outside the Region that is not subject to the pull-back requirement?

ANSWER:

As pointed out in a 1980 GAO report 1/, and in another GAO report about to be issued, the major obstacle to marketing more of the available surplus outside the region is limited transmission capacity between the Northwest and California. California is the major potential market for the Northwest surplus because of its large dependence on high cost oil and gas fired generation which can be displaced. The Pacific Intertie transmission lines which interconnect the two regions have a combined capacity of 4,400 megawatts, which is not adequate in most years to market the available surplus.

Private utilities in California are concerned about several factors that increase the risk of investing in expansion of the intertie. These include:

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1/Report to Charles W. Duncan, Jr., Secretary of Energy, "Oil Savings from Greater Intertie Capacity Between the Pacific Northwest and California," EMD-80-100, September 24, 1980.

--not knowing how much power surplus will be available from the Northwest on a long-term basis (beyond 1990), or what general policy will be used in the Northwest for the pricing of the power;

--not having assurance on power allocation and intertie access because of Federal legislation that provides preference in the allocation of Federal power to public bodies.

In addition to the above obstacles and concerns, there are several legal limitations on the sale of surplus power outside of the Pacific Northwest region by BPA and its regional customers. They are contained in the Bonneville Project Act of 1937 (BPA Act) 16 U.S.C. § 832 et seq., the Act of August 31, 1964 (the Regional Preference Act) 16 U.S.C. § 837 et seq., and the Pacific Northwest Electric Power Planning and Conservation Act (the Regional Act) 16 U.S.C. § 839 et seq.). The following discussion relies exclusively on the applicable statutory provisions and legislative histories.

BPA sales to customers  
outside the region

The Regional Act authorizes the Administrator of BPA to sell electric power which is surplus to his contractual obligations under the Act. 16 U.S.C. § 839c(f). "Electric power" refers to electric energy, electric peaking capacity, or both. 16 U.S.C. § 839a (9). BPA sales of surplus power must be in accordance with applicable legislation, including the Regional Act, the BPA Act, the Regional Preference Act and the Federal Columbia Transmission Act, 16 U.S.C. § 838 et seq. The Regional

Act also provides that any BPA contract for the sale of electric power for contained in sections 2 and 3 (16 U.S.C. §§ 837a, 837b) of the Regional Preference Act. 16 U.S.C. § 839f(c). In addition, all power sales under the Regional Act are subject to the preference and priority provisions of the BPA Act.

1. Regional Preference Act

The Regional Preference Act establishes that BPA may sell only surplus hydroelectric power (surplus energy and surplus peaking capacity) outside the region. 16 U.S.C. § 837a. Customers must have at least 30 days' notice prior to execution of contracts and may inspect draft contracts on request. Contracts for the sale of surplus energy and peaking capacity must give BPA the right to terminate power deliveries. Surplus energy deliveries can cease upon 60 days' or less notice when BPA cannot meet the current or future energy requirements of a regional customer. (60-day call back). In determining the energy requirements of a regional customer, hydroelectric power generated and sold by the customer outside the region is excluded if it could have been conserved or otherwise kept for its own regional needs. 16 U.S.C. § 837b(d).

BPA may terminate surplus peaking contracts with five years or less notice and the buyer will have to return the energy necessary to supply the capacity. In lieu of this requirement, the contract may include a 60-day call back provision.



## 2. BPA Act

The Federal preference and priority provisions in the BPA Act represent additional legal obstacles to BPA sales of surplus power outside the region to private utilities. Under section 5(a), all power sales under the Regional Act are subject to the preference and priority provisions of the BPA Act, in particular sections 4 and 5 (16 U.S.C. §§ 832c, 832d) of the Act. 16 U.S.C. § 839c(a). Therefore, in disposing of surplus electric energy, the Administrator must, at all times, give preference and priority to public bodies and cooperatives. 16 U.S.C. § 832c(a). In addition, contracts with private purchasers engaged in the business of selling energy to the general public must contain a clause which allows the Administrator to cancel the contract on 5 years' notice if any part of the energy is likely to be needed to satisfy the requirements of public bodies and cooperatives. 16 U.S.C. § 832d(a)(2).

Since the BPA Act placed no geographical limitations on the application of the preference provisions, they apply equally to sales inside and outside the region. Although the Regional Preference Act introduced the principle of regional preference into the rules which govern the sale of power by the BPA, it did not amend or abrogate the preexisting Federal preference rules

as they apply to sales outside the region. Likewise, the Regional Act was not intended "to interfere in any way with, or modify, the statutory rights of preference customers either within or without the region \* \* \*." H.R. Rep. No. 96-976, Pt. II, 96th Cong., 2d. Sess. 26 (1980). This means that a non-regional cooperative or public body has a right to receive surplus power from BPA before a non-regional private utility or other private entity.

BPA sales to regional customers

1. Regional and Regional Preference Acts

Under the Regional and Regional Preference Acts, if a BPA customer with its own generating capacity sells power outside the region which increases its need for BPA firm energy, it can purchase from BPA only surplus energy, and that energy will be subject to the 60 day call back requirement. Such a limitation, however, does not apply where the energy could not be conserved or otherwise retained for use in the region. 16 U.S.C. §§ 837b(2), 839f(c).

Section 9(c) applies the limitations and conditions of the Regional contract for the sale of electric power "for use outside the region." 16 U.S.C. § 839f (c). The Regional Preference Act limitations clearly do not apply to other than BPA contracts, nor to a BPA contract for sale of surplus power to a regional customer if the BPA contract does not specify that, or the understanding between the parties does not contemplate that, the customer sell an equivalent amount of power "for use" outside the region.

We have asked ourselves when such limitations and conditions might apply to such parallel sales (BPA to a regional customer and regional customer to a non-regional customer), arguably the practical equivalent of a sale of power "for use outside the region," and have concluded that a dispositive answer probably would require us to conjecture about what the express and implied terms of a contract might be, and deal with what abstract propositions of law might apply to various factual situations. Given these circumstances, the ambiguity of the statutory language, and the fact that no specific indication of what the Congress intended by the phrase is provided in the legislative histories of either the Regional or Regional Preference Acts, we will confine our response to your specific inquiries.

2. BPA Act

A BPA contract with a private regional customer engaged in the business of selling energy to the general public must contain a clause that allows BPA to cancel the contract on 5 years' notice, if any of the energy is to be needed to satisfy the requirements of public bodies and cooperatives. 16 U.S.C. § 832d(a)(2).

The Administrator may also, in his discretion, include in any contract for the sale of power with any utility engaged in the sale of electrical energy to the general public any

stipulation covering resale of such power to effectuate the purposes of the BPA Act. 16 U.S.C. § 832d. A major purpose of the BPA Act is to preserve the preference status of public bodies and cooperatives. 16 U.S.C. § 832c(d). Thus, the Federal preference rules could affect BPA surplus power sales to regional customers through the five year cancellation clause or a discretionary resale stipulation.

In addition, sales of surplus power could not be made to regional customers if public or cooperative customers outside the region wanted the surplus power from BPA. Federal preference applies to the sale of all BPA power. 16 U.S.C. § 839c(a).

Section 9(d) of the Regional Act

The Regional Act also provides that a regional utility or group of utilities may sell outside the region any power derived from non-Federal resources, new or existing, as long as the sale does not increase the amount of firm power BPA must provide to any customer. Under the Regional Act, the term "resource" includes actual or planned load reduction from a conservation measure, as well as electric power. Thus, the load reduction resulting from a conservation measure could be sold outside the region if it were considered a non-federal resource.

The terms "Federal or non-Federal resources" are not defined in the Regional Act or its legislative history. From a common-sense standpoint, a load reduction obtained by a regional utility through its own conservation measures independent of any BPA financial or other assistance would usually be regarded as a non-Federal resource.

Also, conservation measures or activities which BPA acquires or finances or for which it provides other forms of direct assistance, could be considered a Federal resource. This might include BPA billing credits. It is difficult to determine whether load reduction resulting from conservation measures encouraged or marginally assisted by BPA should be considered Federal or non-federal resources.

By its terms, section 9(d) applies to utilities or groups of utilities only. Apparently, BPA is not included among the utilities referred to in section 9(d). A House report indicates that section 9(d) "clarifies that utilities (unlike BPA) are free to dispose of their own non-Federal power (both firm and non-firm) so long as they do not thereby increase BPA's firm power obligations." H.R.Rep. No. 976, Pt. II, 96th Cong., 2nd Sess. 55 (1980) (emphasis added).

QUESTION 2(e):

Are there any legal impediments to the use of revenues generated by the sale of surplus power to acquire conservation and renewable resources or to develop pilot or R&D programs for those resources.

ANSWER:

There are no legal impediments to the use of such revenues for this purpose. Revenues generated from the sale of electricity are deposited in the BPA Fund established by the Federal Columbia River Transmission System Act, (16 U.S.C. § 838i). The Fund essentially consists of BPA's receipts from all sources, proceeds from BPA's sale of bonds, and any appropriations made to the Fund. Once deposited in the Fund, revenues from surplus power sales lose their identity as such. The guidelines to the use of such revenues for specific purposes are the same for any expenditure by the Administrator out of the Fund.

In order to qualify as an authorized expenditure from the Fund, an expenditure must be: (1) included in the annual BPA budget submitted to Congress; (2) necessary or appropriate to carry out the duties imposed upon the Administrator by law; and (3) within specific limitations or directives imposed by appropriations acts ( 16 U.S.C. § 838i).

--Both the FY 1983 and FY 1984 Budgets provide for resource acquisitions under the Regional Act. Acquisition of conservation and renewable resources are favored by the Regional Act over other types of energy acquisitions (16 U.S.C. § 839d(e)(1)). In addition, the 1984 Budget provided for "non major" renewable resource research, development, and demonstration.

--The purposes necessary or appropriate to carrying out the duties of the Administrator include, but are not limited to, making payments required to carry out the purposes and provisions of the Regional Act (16 U.S.C. § 838i(b)). The Regional Act requires the Administrator to acquire resources which are consistent with the Regional Plan (16 U.S.C. § 839d(b)(1)). The general Plan priorities are statutorily mandated and conservation and renewable resources are preferred above all other resources (16 U.S.C. § 839b(e)(1)). Although the Regional Act does not contain a specific provision authorizing BPA to fund or develop pilot and R&D programs for conservation and renewal resources, several parts of section 6 of the Regional Act may permit BPA to undertake or fund many kinds of activities (16 U.S.C. § 839d). Section 6(a)(1) authorizes the Administrator to conduct demonstration projects to determine the cost-effectiveness of conservation and the direct application of renewable energy resources (16 U.S.C. § 839d (a)(1)). In addition, the Administrator can acquire experimental, demonstration or pilot programs with a potential for providing cost-effective service which do not meet the Act's acquisition criteria and which are not major resources. However, such acquisitions must first be included in BPA's annual budget submitted to Congress under the Federal Columbia Transmission Act (16 U.S.C. § 839d (d)).

Finally, in certain situations, the Administrator may enter into agreements with sponsors of resources which may be acquired under the Act to cover certain of their expenses. With respect to a non-major renewable resource, BPA may fund or secure debt incurred in the initial investigation and development of such resource. For other resources, under certain circumstances, BPA may provide for reimbursement of the sponsor's investigation and pre-construction expenses. (16 U.S.C. § 839d (f)).

--Other than in the areas of loans and grants, no limitation or directives in appropriation acts affect the use of the BPA Fund to acquire or develop conservation and renewable resources. The Continuing Appropriations Act for FY 83, Pub. L. 97-377 § 815, 96 Stat. 1912, which incorporates H.R.7845, the Energy and Water Development Appropriations Bill 1983, allows BPA to sell \$276,000,000 in bonds to the Treasury to make loans and grants for conservation and renewable resources. Section 13 of the Transmission Act, as amended by the Regional Act, gives BPA authority to sell \$1,125,000,000 bonds to the Treasury, for such loans and grants, as provided for in advance in annual appropriation acts.

Thus, expenditures from the BPA fund for the acquisition of conservation and renewable resources are clearly authorized. Expenditures for R&D or pilot programs are authorized as long as they fall within the statutory confines for such projects.



QUESTION 3a:

Please explain how BPA intends to recover the cost of conservation resource acquisition and pilot programs through rates and through a system of fees outside of rates.

ANSWER:

Conservation costs are recovered through a series of rates and fees. For example, during the 12-month test period ending June 30, 1985, which BPA used to set its proposed rates, BPA plans to recover about \$78 million of conservation costs. About \$53 million of these costs will be recovered through rates and about \$25 million will be collected through conservation contract fees which are ultimately paid by consumers who receive energy from sources other than BPA.

As discussed in question 1f, BPA is using two methods (rates and fees) to recover conservation costs in order to equitably charge all those who receive the benefits of the BPA-financed conservation program. To be eligible to participate in BPA's conservation program, a utility must become a BPA customer by signing a BPA power sales contract. For those customers who purchase power from BPA, the cost of the conservation program is recovered through rates. However, customers who are eligible for the BPA conservation program, but are not purchasing power from BPA, are charged a fee to help pay for the cost of the conservation program not recovered through Bonneville sales.

BPA funds the conservation program primarily through borrowing as follows:

<u>Fiscal Year</u>	<u>Borrowing</u>	
	<u>Treasury</u>	<u>External</u>
	(millions)	
1982	\$ 63.4	\$ 0
1983	195.6	0
1984	121.0	58.4
1985	<u>121.0</u>	<u>98.4</u>
Total	<u>\$501.0</u>	<u>\$156.8</u>

BPA calculates the annual principal and interest charges using BPA's rate and repayment study based on a repayment period of 20 years, the estimated useful life of conservation measures.

The annual costs for conservation in the test period are:

Program development costs (e.g., staff costs directly attributable to the conservation program)	\$10,651,000
5 percent of acquisition funded from current rate to reduce borrowings	11,212,000
Prinicipal and interest for borrowing	<u>56,322,000</u>
Total	<u>\$78,185,000</u>

QUESTION 3b:

Please briefly describe BPA's proposed rate structure, including the cost basis (average, embedded, incremental, or some other basis).

ANSWER:

Generally, BPA's rates are designed to collect revenues adequate to cover the cost of purchased power, operating and maintenance expense, interest, and capital recovery. BPA's proposed rate structure is based on average costs. This means the costs of older hydroelectric projects, constructed many years ago at low costs, are merged or melded with more recent, higher cost projects, including nuclear plants. "Average cost pricing" will recover historical costs but is slow to signal that much higher costs are being incurred for new power plants to meet increased demand.

To give customers some signals regarding the varying costs of electric service, BPA has adjusted some of its rates to reflect seasonal, daily, and hourly cost differences. For example, the region's predominately hydropower system produces more energy in the spring and early summer than in the winter. Therefore, BPA set its summer rate to public utilities at 1.29 cents per kilowatt-hour of energy, and set its winter rate 25 percent higher at 1.61 cents per kilowatt-hour of energy.

BPA has declined to adopt a tiered rate structure which is designed to motivate electric utilities and power consumers to conserve electricity. Under a tiered rate structure, Bonneville's sales of power to a utility customer would be divided into two or more blocks (tiers) with higher rates applied

to each successive tier to depict the higher costs of meeting increased demand. As noted in the BPA's 1983 Wholesale Power Rate Draft Environmental Impact Statement, BPA is concerned about the potential adverse effect of a tiered structure on BPA's revenue stability. Revenue stability is presently a very serious concern to BPA due to recent rate increases, depressed economic conditions within the region, a projected power surplus for several years, and weakened markets for export sales of surplus power. Since a large portion of BPA's costs are fixed and do not change as load varies, a tiered structure, depending on how it is designed, could reduce revenues if utilities reduced loads significantly more than anticipated as a result of such tiering.

In a letter report, 1/ to Congressman Jim Weaver on February 6, 1980, we concluded that a tiered rate structure is administratively workable at the wholesale level. We support the concept of using realistic price signals to motivate utilities and power consumers to develop alternative resources and to conserve energy.

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1/"Administrative Feasibility of Two-Tiered Pricing by the Bonneville Power Administration" (EMD-80-57) February 6, 1980.

QUESTION 3c, Part 1:

In what manner does the establishment of rates and rate designs by BPA affect the implementation of the Plan?

ANSWER:

The establishment of rates and rate design can have a considerable effect on the implementation of the Plan. As discussed in question 3a, implementation of the Council's Plan is dependent on BPA rates and sales providing adequate revenues to fund the programs recommended by the Council. Rate design, such as a tiered or inverted rate structure which encourages increased efficiency could have an effect on how fast conservation resources are needed.

In a 1980 report, 1/ we pointed out that the wholesale tiered-price rates, to be effective, must be mirrored in the retail rates which the utilities charge the ultimate consumer. Bonneville could use tiered wholesale rates to remind utilities of the costliness of new power supplies, and to encourage conservation and more efficient energy use. Bonneville's utility customers, in turn, could use tiered retail rates to provide their consumers with more meaningful price signals and an increased incentive to conserve power.

As explained in question 3b, BPA had declined to use the tiered rate structure, because of concern about the potential adverse effect a tiered rate could have on BPA's revenue stability.

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1/Letter report to Congressman Jim Weaver, "Administrative Feasibility of Two-Tiered Pricing by the Bonneville Power Administration" (EMD-80-57) February 6, 1980.

QUESTION 3c, Part 2:

How, if at all, is the interest of the Region in the implementation of the Plan represented in the ratemaking process?

ANSWER:

Although the Regional Planning Council is the primary organization which represents the Region's interest in the Plan's implementation, the Council has decided not to become an official participant in BPA's rate-making process. A representative of the Council's staff told us that the Council decided not to participate because (1) the Council did not have enough staff to participate meaningfully and (2) the Council already participated in the rate-setting process by influencing the program costs which are recovered through the rates. The Council sees the rate-setting process as primarily a forum for BPA's customers to work out the allocation of the costs among customer classes. However, they have asked to be kept informed of the process by receiving the same materials official parties receive.

BPA has set up two methods for people to contribute to the rate-making process: (1) public involvement and (2) formal hearings. The public involvement method consists of two series of meetings held throughout the region at which anyone, except parties, can comment on the rates. The formal hearings process is a quasi-judicial proceeding in which certain persons and organizations, designated "parties", exercise certain rights and responsibilities. A party is a person or organization who petitions to be a party and (1) has contracts with BPA or (2) represents a significant and otherwise unrepresented interest.

A party is entitled to call witnesses, cross-examine witnesses, and receive documents from other parties. In addition, a party is subject to cross-examination and may be required to provide documents to other parties.

All comments made at the public involvement sessions and during the hearings become part of the official record. BPA staff then analyze and summarize the record for consideration by the Administrator. He then publishes the basis for his decision in the Administrators's Record of Decision, a document published after the close of the comment period.

Of the 47 organizations presently listed as parties, 7 are public interest and fish protection organizations and 7 are State organizations. The remaining 33 organizations are customers or customer groups. (See attached list)

The Regional Council's staff in commenting on how public interests are represented in the rate-making process said that the public cannot participate fully because the hearings process is technical and time consuming; it requires considerable resources and a legal staff's involvement.

PARTIES TO THE RATE SETTING PROCESS<sup>1</sup>

PUBLIC INTEREST AND FISH PROTECTION ORGANIZATIONS (7)

- 1 Forelaws on Board
- 2 Northwest Environmental Defense Center
- 3 Washington State Farm Bureau (Trade Association)
- 4 Association of Public Agency Customers (Trade Association)
- 5 Columbia River Inter-Tribal Fish Commission
- 6 National Marine Fisheries Service
- 7 Honorable James Weaver, U.S. Congressman (Pending Approval)

STATE ORGANIZATIONS (7)

- 8 Oregon State Department of Agriculture
- 9 Washington Utilities and Transportation Commission
- 10 California Energy Commission
- 11 Public Utilities Commission of the State of California
- 12 Idaho Public Utilities Commission
- 13 Public Utilities Commission of Oregon
- 14 State of California (Pending Approval)

PREFERENCE CUSTOMER/CUSTOMER GROUP (17)

- 15 The Non-Generating Group
- 16 Northwest Irrigation Utilities
- 17 Public Generating Pool  2
- 18 Eugene Water and Electric Board
- 19 City of Tacoma
- 20 Public Power Council
- 21 Western Washington PUD Group
- 22 City of Seattle-City Light Department
- 23 Public Utility District No. 1 of Chelan County
- 24 Cowlitz County PUD
- 25 Public Utility District No. 1 of Douglas County
- 26 Tillamook People's Utility District  2
- 27 Clatskanie People's Utility District
- 28 Central Lincoln People's Utility District
- 29 Northern Wasco People's Utility District
- 30 Pacific Northwest Generating Company
- 31 Public Utility District of Grant County (Pending Approval)

<sup>1</sup>/Number of individual organizations represented are much larger because some interested parties speak for many organizations (e.g., the "direct service industrial customers" are listed as one party; however, this party represents 17 customers).

<sup>2</sup>/The organizations have band together to present testimony.



INVESTOR OWNED UTILITY CUSTOMER/CUSTOMER GROUP (8)

- 32 CP National Corporation
- 33 Puget Sound Power and Light Company
- 34 Idaho Power Company
- 35 Utah Power & Light Company
- 36 Montana Power Company
- 37 Pacific Power & Light
- 38 Portland General Electric Company
- 39 Washington Water Power Company

DIRECT SERVICE INDUSTRIAL CUSTOMER/CUSTOMER GROUP (4)

- 40 Arco Metals Company
- 41 Direct Service Industrial Customers
- 42 Intalco Aluminum Corporation
- 43 Hanna Nickel Smelting Company

CUSTOMERS OUTSIDE THE REGION (4)

- 44 City of Los Angeles, Department of Water and Power
- 45 Pacific Gas and Electric Company
- 46 San Diego Gas and Electric Company
- 47 Southern California Edison Company

QUESTION 4a:

Please explain the BPA budget process from start to finish, including the role that DOE, the U.S. Office of Management and Budget, and the U.S. Congress play in determining a final budget.

ANSWER:

Since passage of the Federal Columbia River Transmission System Act (16 U.S.C. 838) in 1974, BPA has operated on a "self-financing" basis. The 1974 act gave BPA authority to use its revenues to finance ongoing programs, and to borrow up to \$1.25 billion from the U.S. Treasury for transmission system construction. In addition, the Pacific Northwest Electric Power Planning and Conservation Act (16 U.S.C. 839) of 1980 provided BPA an additional \$1.25 billion in loans and grants for conservation and renewable resource, as provided for in advance in annual appropriation acts. BPA receives no appropriations from the Congress, but uses revenues and borrowing authorities to fund its programs. The borrowed amounts, plus interest, are to be repaid to the Treasury from BPA's power revenues.

BPA's budget process generally conforms to the process followed by other agencies of the Federal Government. The annual budget is BPA's plan for operations. It contains proposed program funding levels for the various activities BPA is required by law to perform. The budget figures do not imply absolute certainties; they represent BPA's best estimates of anticipated financial activities.

The attached timetable for BPA's fiscal year 1984 budget development process is typical and is expected to be repeated for fiscal year 1985.

BPA's budget is reviewed by DOE, OMB, and the Congress. These entities, however, do not specifically approve the budget. If they have problems with the budget or any of its components, they advise BPA, discussions are held, negotiations are carried out, and appropriate revisions are made.

Generally, BPA does not make changes to the budget once it is submitted to OMB in the early fall unless budgeted amounts change considerably during the year. When conditions change, BPA may make appropriate internal revisions to the budget. These revisions are not submitted to OMB or the Congress for review unless BPA believes the changes are substantial, like the cost reductions for fiscal year 1984.

DEVELOPMENT OF BPA BUDGET FOR  
FISCAL YEAR 1984

<u>Timing</u>	<u>Budget Development Steps</u>
March 1982	BPA program offices prepared preliminary program estimates and drafted project authorizations.
June 1982	BPA submitted its budget data to DOE for internal review and consideration.
August 1982	BPA provided a revised budget to DOE for inclusion in the DOE budget to be submitted to OMB.
September 1982	BPA's budget was submitted to OMB with the DOE budget.
October/December 1982	OMB conducted hearings on BPA's budget and evaluated the need for possible revisions.
January 1983	The President submitted his budget, including the BPA material, to the Congress.
February 1983	Congressional committees held hearings on the budgets of DOE power marketing agencies, including BPA.
May 1983	BPA transmitted budget changes to DOE, and to the House and Senate Subcommittees on Energy and Water Development.

QUESTION 4b:

Does the Regional Council have any input, formal or informal, into the BPA budget? Please explain.

ANSWER:

Other than submitting its own operations budget which becomes part of BPA's budget, the Council's formal input into the BPA budget is through its Regional Conservation and Electric Power Plan. BPA recognized this in its comments on the Council's draft Plan, and stated that it is important for the Council to submit future revisions to the Plan to BPA before the BPA budget is submitted to OMB in September. Otherwise, the Council's Plan may not be incorporated into the BPA budget, possibly resulting in a lengthy delay in implementing the Council's Plan. For example, if the first biennial revision of the Council's Plan is completed after BPA's budget is submitted to OMB in September 1985, BPA might have insufficient time to factor the Plan into the fiscal year 1987 budget presentation to the Congress. BPA has suggested that the Council submit its revised Plan in March, but no later than August 1 as the last possible date for timely inclusion of Council planning in the BPA budget. According to BPA officials, the only other alternative would be to change the budget belatedly through BPA's budget revision process; a process they believe to be cumbersome and time consuming at best.

The Council is planning to issue its Two-Year Action Plan for 1986-87 in December 1985 so that it will be synchronized with the Council's revisions to its Fish and Wildlife Program. A member of

the Council's staff told us that the Council cannot be expected to issue its biennial update to the Plan earlier than December 1985 because development of the Plan is an evolutionary process that must continue right up to the start of the 2-year cycle if realistic projections are to be made. He said that the Council's staff and BPA will need to continue working together to ensure that BPA's budget will be consistent with the Council's Plan.

The Council does not have an explicit, formal responsibility for developing or reviewing BPA's budget under the act. However, the act does assign the Council responsibility for reviewing BPA's implementation of the measures called for in the Plan. In this regard, a member of the Council's staff told us that the Council must ensure that BPA is including in its budget those activities called for in the Plan, but it is not the Council's intent to become involved in a detailed review of BPA's budget. Although the Council did receive a copy of BPA's proposed budget for fiscal year 1984, the Council did not have an opportunity to review it because the Council was in the process of finalizing its Plan.

QUESTION 4c:

Does BPA intend to tailor its final budget to the requirements of the Council's Plan? Please explain.

ANSWER:

A revised BPA budget was provided to DOE and the House and Senate Subcommittees on Energy and Water Development on May 17, 1983. However, this budget does not reflect BPA's review of the final Council Plan. As reflected in answers to previous questions, BPA is currently reviewing the Council's final Plan to clarify BPA's responsibilities and determine what budgeting modifications must be made to fully implement the Plan. BPA intends to complete this review by August 1, 1983, when BPA's schedule and work plan, as requested by the Council's Plan, is due.

QUESTION 4d:

Please set forth what portion of the budget is to be financed by rates and what portion by borrowing.

ANSWER:

As revised by BPA in May, its fiscal year 1984 budget is \$2.6 billion. Of this budgeted amount, \$324.5 million will be financed by borrowing from the Treasury under authority of the Regional Act and the Federal Columbia River Transmission System Act. The Transmission Act authorizes the BPA Administrator to borrow up to \$1.25 billion for the construction of transmission facilities. The Regional Act authorizes the BPA Administrator to borrow up to \$1.25 billion to provide funds for conservation and renewable resource loans and grants. Through fiscal year 1982, BPA had borrowed over \$900 million for transmission and conservation activities.

The \$324.5 million to be borrowed in fiscal year 1984 consists of the following amounts:

Energy conservation	\$121.0 million
Transmission system planning and construction	<u>203.5 million</u>
Total to be borrowed	<u>\$324.5 million</u>

A member of Bonneville's accounting staff told us that BPA makes the decision to borrow from the Treasury based upon an analysis of its cash flow forecasts and a review of the current interest rates.



Except for a reimbursable amount of \$95.4 million, the remaining fiscal year budget of \$2.3 billion (the fiscal year 1984 budget of \$2.6 billion minus the \$324.5 million to be borrowed) will be financed by BPA's power rates. The \$95.4 million will be reimbursed to BPA by various utilities and direct-service industrial customers for the costs of interruptible replacement energy; the construction, operation, and maintenance of transmission facilities; and the customers' share of certain generating costs.

QUESTION 5a:

What is the status of BPA's billing credits policy?

ANSWER:

A billing credit is an adjustment of a customer's electric power bill that compensates that customer for developing a resource and using it to serve its own load, thereby reducing the customer's net requirements for electric power from BPA and relieving BPA of the need to acquire such resources. Billing credits are authorized by section 6(h) of the Regional Act. They are intended to provide incentives for BPA's customers to undertake certain conservation activities, develop energy resources of their own, or establish retail rate structures to induce consumers to conserve energy or install renewable resources.

Billing credits will be granted for conservation and other types of resource developments that reduce or delay the need for BPA to directly acquire resources. The amount of a billing credit is limited by the rate impact test as specified by section 6(h)(4) of the act. The rate impact test states that for resources other than conservation, the rate to BPA's customers of granting the billing credit, shall not be greater than the rate would have been had the Administrator acquired an equal amount of other resources.

For conservation, BPA proposes to grant a credit equal to the difference between BPA's alternative cost and the customer's wholesale power rate. For other types of resources, BPA proposes a billing credit equal to the difference between the net costs

of developing the resource including some profit (up to BPA's alternative cost) and the customer's wholesale power rate.

These formulas result in amounts (billing credits) due to the customer, until the customer's wholesale rate exceeds BPA's alternative cost or the net cost of the resource. After this point, the customer must share some benefits with the region's other ratepayers, in the form of a negative billing credit, to simulate the rate impact that would have accrued had BPA acquired resources in lieu of granting a billing credit.

After publishing its proposed billing credit policy in March 1982, BPA received comments from 136 sources, including over 1,000 separate recommendations. Its analysis of these comments showed that many aspects of the proposed policy were controversial. For example, 24 respondents said that the negative billing credit is a disincentive to development of resources and should be eliminated.

A representative of the Regional Council said that since the billing credit policy was so controversial, the Council did not use it in the current Plan. Additionally, if the Council decides it needs to use an incentive, it would not rely on billing credits but would devise its own system.

BPA plans to publish its final policy statement in August with some changes from the proposed policy; however, many controversial items will still be included. Since the region is in a surplus energy condition, BPA does not plan to use billing

credits. BPA did not allocate money for billing credits in the proposed rates. BPA stated that if billing credits are used, the costs will be reallocated from the money previously budgeted for the displaced resource that BPA would have acquired.

QUESTION 5b:

Under the Regional Act, must a resource be (1) cost-effective and (2) part of the Plan to be eligible for billing credits? Please explain.

ANSWER:

Under section 6(h) of the Regional Act, BPA has to grant billing credits to customers for (1) conservation activities independently undertaken or continued after December 5, 1980, by such a customer or a political subdivision served by it or (2) renewable or multipurpose projects or renewable resources constructed, completed or acquired after December 5, 1980, by a customer, its agent or a political subdivision served by it. The activities or resources must reduce BPA's obligation to acquire resources under the Regional Act (16 U.S.C. §839d(h)).

Section 6(c) provides detailed procedures which must be followed for each proposal to grant billing credits involving a major resource (16 U.S.C. §839d(c)). (These procedures also apply when BPA acquires a major resource.) The Regional Act defines a major resource as a resource having a planned capability of more than 50 megawatts and if acquired by BPA, is acquired for more than 5 years (16 U.S.C. §839a (2)). The term "resource" includes the actual or planned load reduction resulting from a conservation measure (16 U.S.C. §839a (19)). Thus, section 6(c) would be applicable to BPA's proposal for billing credits to acquire load reductions resulting from conservation measures, as well as renewable resources.

In answering the question whether a resource must be cost-effective or part of the Regional Plan to be eligible for

billing credits, resources will be divided into two categories: (1) non-major resources and (2) major resources.

Non-major resources

With respect to non-major resources, section 6(h) provides the essential eligibility criteria. As already mentioned, a conservation activity must be independently undertaken or continued after December 5, 1980, by a BPA customer or a political subdivision it serves. It does not have to be part of the Plan or cost-effective. However, it must reduce the obligation of the Administrator that would otherwise have existed to acquire other resources under the Act. Generally the Administrator acquires resources under the Act that are consistent with the Regional Plan and the Plan is required to give priority to cost-effective resources.

The amount of billing credits for conservation shall be set to credit the customer for the savings resulting from such activity. The impact of granting the credit on BPA's other customers must be equal to what they would have experienced had BPA been obligated to acquire resources in an amount equal to that actually saved. Since BPA generally has to acquire cost-effective resources, this restriction on the rate-impact for BPA's other customers may have the effect of limiting the amount of the billing credit to that achieved by a cost-effective resource. In short, the limitation on the rate impact may impose indirectly a cost-effective criterion on non-major conservation resources seeking billing credits.

To be eligible for billing credits, a non-major renewable resource must have been constructed, completed or acquired after December 5, 1980, by a BPA customer, agent, or political subdivision the customer services. The renewable resources must not be inconsistent with the Plan, but is not required to be part of the Plan. As already mentioned, resources under the Plan must be cost-effective. Also, to be consistent, they must not be inconsistent with certain other objectives set out in section 4e(2) of the Act, including environmental quality and other criteria set out in the Plan.

#### Major resources

Section 6(c) of the Regional Act applies to proposals for billing credits for major resources, as well as the acquisition of major resources. After notice and regional hearings, BPA must find whether the proposal is consistent or inconsistent with the Plan. Only cost-effective resources are consistent with the Plan.

Within 60 days of the Administrator's finding, the Regional Council must by a majority vote determine whether the proposal is consistent or inconsistent with the Plan. Any proposal which the Administrator or the Council decides is inconsistent with the Plan cannot be implemented by BPA without the specific authorization of expenditure of funds by the Congress.

In short, billing credits proposals for major resources must be consistent with the Regional Plan, which means the resources must be cost-effective. Otherwise, the Congress must specifically approve BPA's expenditure of resources.

QUESTION 5c:

Please report on the status of negotiations between BPA and the Region's utilities with respect to long-term conservation contracts.

ANSWER:

In July 1981, BPA offered short-term conservation contracts for its region-wide conservation program to 143 public, private, and municipal utilities. The short-term contracts were issued as an interim measure to development of additional conservation programs and issuance of the Council's Plan. These contracts, which terminate on September 30, 1983, specified the terms and conditions under which utilities could participate in various conservation programs being offered by BPA at the time. The programs provided shower flow restrictors, water heater wraps, residential weatherization, low-income weatherization, commercial lighting and water heating, and street and area lighting. One hundred eight utilities subsequently signed short-term conservation contracts.

Since 1981, BPA has been working on development of long-term conservation contract offerings. By April 16, 1983, BPA and other interested parties (utilities, States, local governments, and advocacy groups) had completed negotiation sessions on the contractual language for the general contract provisions, and the Residential Weatherization and Street and Area Lighting programs. On May 2, 1983, BPA announced that anyone wishing to make comments or suggestions about the proposed contract documents could do so until May 18, 1983. After all comments and suggestions had been received and reviewed, BPA held an informational meeting on



May 26, 1983, and concluded the negotiation process. BPA is currently preparing the long-term conservation contracts for release.

BPA plans to begin offering long-term conservation contracts to public, investor-owned, and municipal entities by July 1, 1983. This will provide eligible participants time to review and obtain approval from their respective governing bodies. All long-term contracts should be signed by the end of September 1983, when the short-term conservation contracts executed in 1981 will expire.

The General, Residential Weatherization, and Street and Area Lighting Program contracts now being finalized serve different purposes. The general contract provisions will cover definitions and legal references; and will define payment, program operation, and program review requirements. These provisions will automatically become a part of the Residential Weatherization and Street and Area Lighting contracts, and future program contracts.

The Residential Weatherization Program contracts will be for a maximum period of 7 years, expiring on September 30, 1990. The contracts provide that BPA will provide financial assistance in obtaining energy savings through installation of residential energy saving devices in single and multiple family dwellings, including rental units. Measures included are electric water heater wraps; ceiling, floor, wall and duct insulation; and installation of sash mounted storm windows or thermal pane replacement glass for windows and doors.

The Street and Area Lighting Program contracts will be for a maximum term of 8 years, ending September 30, 1991. Under these contracts, BPA will provide financial assistance to electric utilities, political subdivisions of the State or governmental jurisdictions to obtain energy savings through permanent replacement of area and street lighting units and lamps, with more efficient lighting devices.

During fiscal years 1984 and 1985, BPA plans to examine and test new conservation programs for future long-term offerings. It is anticipated that fiscal year 1986 will be the first year during which new regional programs will be offered under long-term conservation contracts.

QUESTION 5d:

BPA states that it has obligations for conservation in fiscal year 1982 totalling \$64,682,000 and that in the first 4 months of fiscal year 1983, it has obligated \$31,545,000 for conservation. Please verify these expenditures and provide a detailed table that compares actual obligations/expenditures with figures proposed in the respective budgets for those fiscal years, and with estimates provided in the November 11, 1981, oversight hearing.

ANSWER:

A detailed comparison could not be made between the conservation estimates for fiscal years 1982 and 1983 that BPA provided to the Subcommittee on November 10, 1981, and the conservation expenditures proposed in BPA's fiscal year 1982 and 1983 budgets because the composition of BPA's conservation program has changed substantially since the 1981 hearing. Five of the nine conservation activities identified by BPA in the 1981 hearing (research design and development, commercial energy efficiency, solar home builders, pump testing repair rebates, and customer system efficiency) are not specifically identifiable in BPA's budget for fiscal year 1983.

However, we were able to compare the total conservation estimates for fiscal years 1981 and 1982 which BPA provided to the Subcommittee with the budgeted amounts, obligated amounts, and the actual cash outlays for the conservation program during those two fiscal years. During the November 1981 oversight hearing, BPA estimated that \$199.7 million would be budgeted for the conservation program during fiscal years 1981 and 1982. During these two fiscal years, BPA's budgeted amount for the conservation program was \$191.4 million, its obligated amount was \$71.4

million, and its actual conservation cash outlay was \$48.2 million.

The following table compares the conservation program amounts proposed in the fiscal year budgets for 1982 and 1983 with the actual obligations recorded in BPA accounts for fiscal year 1982 and the first 4 months of fiscal year 1983:

CONSERVATION PROGRAM BUDGETED AND OBLIGATED AMOUNTS

(in millions)

<u>Conservation Programs</u>	<u>Fiscal Year 1982</u>		<u>Fiscal Year 1983</u>	
	<u>Budgeted</u>	<u>Obligated</u>	<u>Budgeted</u>	<u>Obligated 1/31/83</u>
Residential Programs	\$119.1	\$48.0	\$190.6	\$29.9
Commercial/Industrial Programs	15.5	1.0	26.8	.5
Public Agencies and Customers	31.2	15.0	44.6	7.5
Program Development	<u>8.9</u>	<u>.7</u>	<u>24.4</u>	<u>1.3</u>
Total Programs	\$174.7	\$64.7	\$286.4	\$39.2
Less				
Advances <sup>1</sup>	0	0	0	7.7
Undistributed Reductions <sup>2</sup>	10.0	0	0	0
External Financing <sup>3</sup>	<u>21.7</u>	<u>0</u>	<u>32.9</u>	<u>0</u>
Total	<u>\$143.0</u>	<u>\$64.7</u>	<u>\$253.5</u>	<u>\$31.5</u>

1/Advances to utilities for conservation work.

2/BPA estimate of shortfalls resulting from start-up delays not attributable to a specific program(s).

3/Conservation programs financed by non-Federal sources.

BPA's cash outlays for its conservation program in all of fiscal year 1982 and in the first 4 months of fiscal year 1983 were \$44.3 million and \$43 million, respectively. Cash outlays for each of the individual conservation activities were unavailable because BPA's accounting system records cash outlays for the conservation program in aggregate only.

QUESTION 5e:

Please report on BPA's position on whether BPA is subject to the requirements imposed on electric utilities with respect to qualifying facilities under Title II of PURPA and FERC regulations related thereto, including the requirement that an electric utility must purchase electric energy generated by a qualifying facility wheeled to such utility by another utility with which the qualifying facility is interconnected.

ANSWER:

BPA takes the position it is subject to section 210 of the Public Utility Regulatory Policies Act of 1978 (PURPA) by citing section 3 of the act which defines electric utility to include Federal power marketing agencies.

Under section 210 (16 U.S.C. 824a-3), the Federal Energy Regulatory Commission (FERC) was directed to prescribe rules to encourage cogeneration and small power production. Such rules are to require electric utilities to purchase electric energy from qualifying cogeneration and small power production facilities. BPA points out that its acquisition authority is modified by requirements of the Regional Act. That act requires BPA's acquisition activities to be consistent with the Regional Council's Plan, as well as with the Council's Fish and Wildlife Program. Additionally, BPA is restricted by the resource acquisition priorities contained in section 4(e)(1) of the act.

Section 210(b) prohibits FERC from establishing rates for the purchase of such energy which exceeds the incremental cost to the utility of alternative electric energy. It further defines, in section 210(d), incremental cost as:

"\* \* \* the cost to the electric utility of the electric energy which, but for the purchase from such cogenerator or small power producer, such utility would generate or purchase from another source."

BPA points out that because it is currently operating in a surplus condition, and expects to do so for the immediate future, it has no immediate need for power. Consequently, BPA contends its "incremental cost of alternative energy" may be very small.

With regard to the wheeling and interconnection provisions of PURPA (sections 202 and 203), BPA points out that because section 201 specifically excludes Federal power marketing agencies from the wheeling and interconnection provision of PURPA, it has no obligation to wheel or interconnect power from a PURPA 210 resource.

We concur in BPA's position on these matters.