

BPA proposes rate increase to sustain hydro system value

Local News

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Posted on : November 19, 2010 at 8:08 am

Portland, Ore. - The Bonneville Power Administration today proposed an 8.5 percent average wholesale power rate increase primarily to support much-needed maintenance and refurbishment of Northwest hydroelectric and nuclear generating facilities to ensure continued delivery of affordable power to the region.

The proposed rate would affect Northwest consumer-owned utilities such as public utility districts, tribal utilities, cooperatives, municipalities and federal entities. These are known as preference customers because, by law, BPA must serve their resource needs. BPA also sells power to investor-owned utilities and direct-service industries, but under different rate structures.

BPA is holding down the proposed rate increase by not rebuilding its financial reserves, which have been diminished by two years of low runoff and reduced energy prices that resulted in losses exceeding \$300 million. The strategy keeps rates lower for now amid a difficult economy, but exposes ratepayers to greater rate volatility. If Columbia River streamflow and the economy do not improve over the coming year, BPA would rely on short-term borrowing instead of reserves to meet financial obligations. The agency would then have to quickly raise rates further to repay the borrowed funds. "The hardest issues in any rate case involve balancing near-term and long-term rate consequences," said BPA Administrator Steve Wright. "We are trying to keep rates as low as possible now without compromising the tremendous value of these low cost electricity generating resources, which will help us keep rates reasonable in the long term." The main costs behind the proposed rate increase include: Upgrades and major maintenance to the aging federal hydroelectric system, which includes many large components such as turbines and cranes that are beyond their planned design life. Fuel purchases and repairs at Columbia Generating Station, the region's only nuclear plant. BPA funds the plant and markets its power output. Improvements at dams and habitat restoration to protect Northwest salmon and steelhead as outlined in the federal Biological Opinion on federal hydropower system operation and Columbia Basin Fish Accords agreements with three Northwest states and seven Native American Tribes. BPA's customer utilities helped reduce cost pressures that initially might have pushed rates up by 12 to 20 percent during the coming rate period. In particular, customers supported the restructuring of debt obligations to Energy Northwest for past nuclear plant construction, which reduced overall cost pressures by about 5 percent. BPA also reduced internal costs and capitalized millions of dollars worth of energy efficiency projects to spread their costs more evenly over the long term. The rate proposal will be considered during a public rate-setting process in the coming months, culminating in a July decision on final rates that would take effect Oct. 1, 2011. BPA is a non-profit federal wholesale utility that must recover its costs through power rates. The new rates will affect retail utilities differently depending on the amount of power and type of services they purchase from BPA. Local utilities ultimately determine the retail impact of BPA rates on individual businesses and residents. BPA sells power that is surplus to its Northwest customers' needs on the competitive wholesale power market, and these revenues help reduce rates for BPA's Northwest customers. Surplus power revenues have been lower

than expected in recent years due to low Columbia River streamflows and low market prices during the economic downturn. The erosion of surplus power revenues caused BPA to draw on financial reserves in fiscal years 2009 and 2010. A slightly lower rate increase might be possible if regional utilities settle a longstanding dispute over how benefits of the federal hydropower system are divided between public and investor-owned utilities. Such a settlement could modestly reduce costs for consumer-owned utilities and provide more predictable costs over the long term. Settlement discussions have continued since last spring. BPA will recover the costs of integrating rising amounts of wind power into the transmission grid through a separate wind integration charge paid by wind developers and purchasers. That rate will be determined through the same process of setting power rates. *The Bonneville Power Administration, headquartered in Portland, Ore., is a not-for-profit federal electric utility under the Department of Energy that operates a high-voltage transmission grid comprising more than 15,000 miles of lines and associated substations in Washington, Oregon, Idaho and Montana. It also markets more than a third of the electricity consumed in the Pacific Northwest. The power is produced at 31 federal dams operated by the Army Corps of Engineers and Bureau of Reclamation and one nuclear Northwest plant and is sold to more than 140 Northwest utilities. BPA purchases power from some smaller projects, including wind generators, and has more than 3,000 megawatts of wind interconnected to its transmission system.*