

Bonneville Power Administration proposes 8.5% rate increase

The Bonneville Power Administration on Nov. 18 proposed raising its wholesale power rates by an average of 8.5%. BPA said it needs the 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 increase would affect consumer-owned utilities in the Northwest, including public utility districts, tribal utilities, cooperatives, municipalities and federal entities. BPA also sells power to investor-owned utilities and direct-service industries, but under different rate structures.

The Public Power Council expressed concern over the impact to its member utilities.

BPA said it 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 in a difficult economy, but exposes ratepayers to greater rate volatility, BPA said.

"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."

"We understand some of the large factors driving rates, such as fish and wildlife mitigation costs and variable water and electricity market conditions," said Public Power Council Executive Director Scott Corwin. "However, any rate increase in this economy can be harmful to the communities served by our members."

"There is a potential, due to water conditions, for the triggering of an even larger increase by the time these rates take effect," Corwin said. The Public Power Council "will continue to push over the next year to make sure that every stone has been turned over to contain costs," he said.

The PPC said it spent several months working with BPA to identify places to contain costs. "The agency agreed to implement some of our suggestions, especially in the area of debt management, so that the proposed rate increase is lower than previously feared," said Corwin.

BPA said the costs behind the proposed rate increase include:

- Upgrades and major maintenance to the aging federal hydroelectric system.
- Fuel purchases and repairs at the 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% during the coming rate period, BPA said. 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%, Bonneville said. BPA said it also reduced internal costs and capitalized millions of dollars worth of energy-efficiency projects to spread the 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 on Oct. 1, 2011.

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 consumer-owned and investor-owned utilities, BPA said. "Such a settlement could modestly reduce costs for consumer-owned utilities and provide more predictable costs over the long term," Bonneville said. Settlement discussions have continued since last spring.

BPA said it 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.

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