



March 11, 2011

Steve Wright  
Administrator  
Bonneville Power Administration  
PO Box 14428  
Portland, OR 97293

Submitted via: [bpa.gov](http://bpa.gov)

Dear Administrator Wright:

Thank you for the opportunity to comment on the Draft Record of Decision on Environmental Redispatch and Negative Pricing Policy (“Draft ROD”) that the Bonneville Power Administration (BPA) released on February 18, 2011. PNGC Power (“PNGC”) supports BPA’s proposed Environmental Redispatch policy and offers a suggestion on how the agency can improve it.

As you know, PNGC is a Joint Operating Entity with statutory preference customer rights under 16 USC §839c(b)(7). PNGC holds a current Slice contract with BPA and a load following Contract High Water Mark Contract. Together, these contracts commit PNGC to purchase power from the agency on behalf of its retail cooperative Members through fiscal year 2028. PNGC therefore has a strong interest in ensuring that BPA meet all of its statutory obligations, upholds cost causation principles, and keeps rates reasonable and affordable. PNGC believes that the BPA Environmental Redispatch proposal would further all of these goals.

## **I. Background**

The Environmental Redispatch proposal would provide that BPA not pay negative prices when the agency must sell surplus power from the Federal Columbia River Power System to replace power from third party generators connected to the BPA system. The Environmental Redispatch policy would be another of the many steps that the agency takes to ensure compliance with environmental requirements of the Clean Water Act (CWA), the Endangered Species Act (ESA), and the Pacific Northwest Electric Power Planning and Conservation Act.<sup>1</sup>

BPA seeks comments on this proposal and needs a final ROD to be in place soon in case Spring conditions necessitate implementation of the policy.

## **II. Reasons that PNGC Supports the Environmental Redispatch Proposal.**

### **A. The Proposal Would Help the Agency Meet Its Statutory Obligations.**

Even as BPA markets power and performs its other duties, the agency must comply with environmental obligations under the CWA, the ESA, and other statutes. The CWA in particular, as implemented by the states and tribes, requires BPA to maintain total dissolved gas (TDG) levels in waterways below federal dams so as to avoid damage to the health of salmon and other species. Requirements vary, but generally TDG may not rise above 120% of supersaturation levels below each dam.<sup>2</sup> BPA limits TDG levels primarily by limiting spill at the dams.

The Environmental Redispatch proposal would help BPA meet these environmental obligations because it would allow the agency to curtail power production from certain third party generators, replace the foregone power production from power from the federal dams, and limit spill at the dams, therefore maintaining TDG limits. Indeed, the Environmental Redispatch

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<sup>1</sup> See Draft ROD at 1.

<sup>2</sup> See *Id.* at 8.

proposal is essential for maintaining TDG limits, and therefore essential for the BPA to maintain compliance with its statutory environmental obligations.

As the Draft ROD points out, BPA's organic statutes allow it to make transmission service available to third party power suppliers only once it has met the agency's statutory obligations, including its obligations under environmental statutes.<sup>3</sup> The large amount of new resources coming online in the BPA Balance Authority Area (BAA) in the last few years, along with significantly more resources expected in coming years, mean that the agency must be very careful to ensure that it is meeting its own statutory needs before it meets the transmission needs of these new resources. The Environmental Redispatch proposal is one way for the Administrator to ensure that BPA meets statutory obligations, particularly environmental obligations, before it takes the secondary step of offering transmission to these new resources.

#### **B. The Proposal Would Uphold Cost Causation Principles.**

PNGC supports maintaining cost causation principles in BPA policies, contracts, and rates. Cost causation principles require simply that any costs should be borne by the service or group that is responsible for creating those costs.<sup>4</sup>

The Draft ROD explains that there may be "costs" associated with the Environmental Redispatch policy, because certain third party generators that have come in to the BPA BAA in the last few years suffer economic consequences, that is, costs, when they accept zero cost power from the dams in lieu of power from their generation resources. These costs are created by foregone federal tax credits and state renewable energy credits. To prevent these costs, BPA

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<sup>3</sup> *Id.* at 5.

<sup>4</sup> *See* Illinois Commerce Commission Administrative Code.

would need to pay something less than zero to replace power from these generators with federal hydropower during an Environmental Redispatch.

The group responsible for creating these “costs” associated with the Environmental Redispatch policy is the third party generators. Therefore, they should be bear the costs.

PNGC and other preference customers already see negative economic consequences of third party generation on the Bonneville system. Increased amounts of power on the system depress market prices and drive down BPA revenue from secondary sales, increasing preference rates accordingly.

Were BPA to offer to pay something less than zero when its offers federal hydropower in lieu of power from third party generators, then this situation would be exacerbated with even higher preference rates. This would be an unacceptable violation of cost causation principles.

### **C. The Proposal Would Help Keep BPA Rates Reasonable and Affordable**

As the Draft ROD notes, BPA has a statutory mandate to keep rates as low as possible consistent with sound principles.<sup>5</sup> PNGC has long advocated, in Integrated Program Reviews, rate cases, and in other forums, that the agency set rates consistent with this statutory requirement so that electricity costs are reasonable and affordable for consumers across the region. Reasonable and affordable rates are especially important for the rural, lower-income communities that PNGC Members serve.

By proposing not to pay negative prices when replacing third party generation with federal hydropower in order to comply with environmental requirements, BPA helps to ensure that it meets its statutory requirement to keep rates as low as possible consistent with sound business principles and otherwise reasonable and affordable. Were BPA to offer, instead, to pay

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<sup>5</sup> See e.g. 16 USC §838g (as cited in Draft ROD at 4).

less than zero when offering federal hydropower in lieu of third generation, the agency would arbitrarily increase rates for its preference customers in order to make up for this increased cost.

Preference customers, such as PNGC, already pay a significant amount in rates so that BPA can meet its CWA and ESA requirements. For example, in 2009, fish and wildlife costs made up more than 30% of BPA's preference power rates. PNGC understands that BPA must set rates so as to meet its statutory environmental obligations, but at the same time the agency should not take on any more unjustified costs that would increase burdens on customers. Paying third party generators to take federal hydropower in lieu of generating when prices fall to zero would be such an unjustified cost.

### **III. BPA Can Improve the Proposal by Very Clearly Defining Conditions Requiring Environmental Redispatch.**

The Draft ROD sets out the conditions that might require an Environmental Redispatch and the steps that the agency will take before calling upon Environmental Redispatch.<sup>6</sup> The draft ROD explains the need to spill water at dams to limit TDG and provides a non-inclusive list of steps BPA will take before replacing third party generation with federal hydropower at zero cost.

BPA can improve the proposal by better explaining in a final ROD, in protocols, and in business practices both the exact statutory requirements that BPA is meeting when implementing each Environmental Redispatch and by explaining in more detail the list of steps it will take before each Environmental Redispatch. BPA should also very carefully document the reasons for and the steps taken prior to each individual Environmental Redispatch event. These steps will better protect the agency from after-the-fact challenges from third party generators or from others following an Environmental Redispatch event.

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<sup>6</sup>Draft ROD at 20-22.

#### **IV. Conclusion**

For the foregoing reasons, PNGC supports BPA's Environmental Redispatch proposal and offers a way in which the agency can improve it.

Thank you again for the opportunity to comment, and please feel free to contact me if PNGC can provide anything further on this issue.

Sincerely,

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/s/

Doug Brawley  
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PNGC Power