



MEMORANDUM
EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Mital, Simpson, Helgeson, Manning and Brown
FROM: Erin Erben, Power Resource & Strategic Planning Manager
Megan Capper, Senior Energy Resource Analyst
Jason Heuser, Government and Community Affairs Coordinator
DATE: September 25, 2015
SUBJECT: Regional Policy and Legislative Update
OBJECTIVE: Information

ISSUE

Management provides the Board an update three times a year on our regional policy, legislative activities, and market affairs to provide context for the business environment within which EWEB operates. This update focuses on current Bonneville Power Administration (BPA) activities, regional policy initiatives, and legislation.

BACKGROUND

EWEB engages in regional policy and legislative work with other public and investor-owned utilities and trade associations in the Pacific Northwest as a way to extend our influence. Strategically, our regional work helps us identify external risks in time to respond to them and, where possible, helps shape the outcome of the discussion to result in new laws, regulations and policies impacting our industry and business. EWEB manages its participation and prioritizes this work according to its Business Strategies. More specifically, we:

- Strive to ensure proposed changes allow EWEB flexibility and resilience to better adapt and thrive in preparation for future changes. (BS1)
- Work to increase customer value by focusing on the efforts that enhance value and minimize cost shifts to EWEB. (BS4)
- Increase organizational efficiency by partnering with other trade associations and utilities to maximize our influence where there is alignment and focus on areas where EWEB may have a unique position. (BS5)

DISCUSSION

The following items reflect the current status of key topics in which EWEB has engaged. Each of them has a direct or indirect impact on EWEB's finances and business operations.

BPA Activities

BPA Fiscal Years 2016-2017 Rate Case (“BP-16”)

The new BPA rates will be effective October 1, 2015. The final average rate increase among BPA customers for power is 7.1 percent and 4.4 percent for transmission. EWEB’s power bill is expected to be an average of 5.5 percent higher and our transmission bill is expected to be 3.7 percent higher compared to the 2014 Rate Case. EWEB intends to recover these BPA related cost increases through a 2.5 percent increase to the electric utility revenue requirement, proposed to be effective February 2016.

The biggest drivers for the power rate increase include costs of debt service, operations and maintenance costs on the aging hydro infrastructure, transmission costs, fish and wildlife program costs, and the loss of Alcoa’s industrial load. The biggest drivers for the transmission rate increase are maintenance and replacement of existing transmission assets, compliance obligations, including but not limited to cyber security and reliability obligations.

BPA Long Term Financial Planning

Much concern has been expressed regarding the future market competitiveness of Bonneville power. With the trajectory of their power and transmission rates increasing significantly, BPA is embarking on a stakeholder process to address these concerns. Some of these concerns are not within BPA’s control such as the effect of hydro conditions on financial performance but still can be mitigated by risk analysis and planning processes. Other areas that are within BPA’s control include financial reserves position, future capital needs, and overall debt structure and management. Administrator Elliot Mainzer has made this effort a top agency priority.

Biennially, BPA conducts a public budgeting process but only 45 percent of those costs are included in that process. Customers are concerned with the other 55 percent that include capital related costs, power purchases, transmission acquisition and ancillary services costs and the future uncertainty around those costs. With only a two year rate certainty, of particular concern are the drivers rising faster than inflation like hydro O&M, increased in fish and wildlife and other BPA internal costs.

In response, BPA is working on a long-term rates forecast model along with a planned budget and program delivery processes. A stakeholder public process called ‘BPA Focus 2028’ is planned for this fall to address these areas of concern.

BPA Network Load Transmission Service

EWEB uses BPA Network Transmission (NT) service to serve our load, and purchases Point-to-Point Transmission (PTP) for our secondary off-system sales. One of our regional priorities has been to work with BPA to increase accessibility to long term firm transmission (NT) for bringing our resources to load. Last fall BPA agreed to initiate a customer needs assessment. As a result of that survey, BPA has started a year-long project to improve its transmission forecasting, modeling, business practices and systems for accessing available long term transmission. In the future we expect EWEB to have the ability to forecast our future transmission needs to serve load, for BPA to have a mechanism to hold out that capacity, and a mechanism for easy access when needed. We also anticipate greater transparency around NT transmission needs and existing constraints.

Regional Policy Initiatives

NWPP Market Initiative

Members of the Northwest Power Pool (NWPP) have been working on alternative market structures to help integrate renewable resources more efficiently and cost effectively through sharing the benefits of regional diversity and increasing transmission utilization. The primary change would be to create a new intra-hour market that would trade in 15 minute intervals, in addition to the hourly markets that exist currently.

The California ISO has developed a similar market structure that includes PacifiCorp and NV Energy from Nevada. Puget Sound Electric and Arizona Public Service have also committed to participate in the California market and Idaho Power and Portland General Electric are currently evaluating membership. While EWEB will ultimately be bound by the decision of Bonneville Power, we have supported the NWPP effort primarily over governance concerns with the California market. The California market exists for the benefits of the state of California and it would be challenging to promote EWEB's specific interests in that forum. The current NW proposal also aligns well with EWEB's current business practices and would not require investment in additional staffing or software. While these participants have recently stepped out of the Northwest process we continue to work to find a NWPP solution.

Columbia River Treaty

It has been over a year that has passed since the September 2014 milestone that NW Public Power Stakeholders had hoped would unlock progress towards renegotiations with Canada as this was the earliest possible date that the United States could give notice of termination of the Treaty, a key leverage point to bring Canada to the table, the treaty does not have a sunset. Until the treaty is renegotiated the Canadian Entitlement will continue to be lopsided relative actual benefit to NW Ratepayers (EWEB's share of payment to Canada is around \$6-8 million annually, when the actual downstream benefit to our ratepayers may be as little as one-tenth of that).

Despite little progress on the surface, a closer look shows promises that a new phase has begun. In August, the State Department transferred a senior officer to Washington, most recently stationed in Chile, and appointed him as a full-time negotiator on the treaty. He has been spending the past month briefing up on all matters large and small relating to the Treaty.

This comes on the heels of increased political pressure from the Pacific NW Congressional Delegation and with the negotiator now in place, the situation in Washington seems primed now for some sort of action to begin, as soon as this fall.

In light of this, Pacific Northwest Utilities have acknowledged that an important tool in our advocacy in Washington DC will be that of possessing independent technical analysis so as not to be overly reliant on analysis solely provided by federal agencies. At this time the necessary resources to accomplish that appear to be coalescing. This topic will be front and center for EWEB representatives attending APPA's National Legislative Rally in Washington DC in March of 2016.

Legislation

Federal "Clean Power Plan" Final Proposed Rule

On August 1st of this year, the US Environmental Protection Agency (EPA) issued the final proposed rule reducing carbon dioxide emissions from the existing electric power generation sector, following up on the proposed rule issued in June 2014. The rule utilizes section 111(d) of the existing Federal Clean Air Act as authority for EPA to set annual interim carbon dioxide intensity targets for individual states. The average effect will be an estimated 30 percent nationwide in carbon dioxide emissions by 2030 for the existing electric power sector. The targets vary state by state and each state will be tasked with submitting its own compliance plan using flexibility afforded them in setting state compliance paths.

EWEB filed comments on the draft rule in 2014 to both US EPA and to Oregon state agencies that will be tasked with developing Oregon's compliance plan. Generally, the EPA's modified final rule proved to be responsive to some of the concerns raised by EWEB and other Oregon stakeholders, including:

- 1) *Concerns about using a single year baseline in a hydroelectric dominant region --* EPA modified the rule for hydroelectric regions, throwing out the 2012 baseline (a very good hydro year) and replacing it with a decade long averaged baseline.
- 2) *Oregon's initial target was one of the most stringent in the nation and improperly undervalued early action and leadership on energy efficiency and renewables --* Oregon's final goal was made less stringent and now seemingly provides "head room" to meet compliance. Other states with higher carbon dioxide emissions and less early action have seen their goals made more stringent.
- 3) *The initial compliance year was 2020, when Oregon's largest source of emissions, the Boardman Coal Plant in Eastern Oregon, was not slated to be closed until the end of 2020 --* the first compliance year has now been changed to 2022. This is a coincidence with regard to Oregon's advocacy, and was more likely changed to improve the legal defensibility of the rule, but nonetheless a positive outcome for the state.
- 4) *Energy Efficiency in Consumer-Owned Utility territory's may not have been allowed for inclusion in state compliance plans without "enforceability" which EPA may have only recognized as mandate like intrusions into local decision-making --* Energy Efficiency is no longer a primary "building block" of compliance (coal plant efficiency, natural gas substitution, and renewables remain now as a set of three building blocks) and have been removed from the targets assigned by EPA to states, but will still be allowed anyway for compliance purposes. This eliminates pressure on the Oregon legislature to enact new energy efficiency mandates of Oregon COU's.
- 5) *EWEB's comments strongly implied that compliance obligations should be placed on the owners/operators of fossil fueled generation plants and not generally to load serving entities like EWEB --* while this matter is largely left still to states to decide this, the rule appears to steer states towards just this approach.

On balance, the final rule is judged by EWEB to be an improvement from the initial proposed rule. However, many outcomes and decision points remain fluid and the formulation of Oregon's state plan is of great importance to actual outcomes that could affect EWEB. EWEB will be closely tracking the progress of the Clean Power Rule and the State Plan and will participate actively at

every step. Oregon's State Plan is due at the end of 2016, or 2017 if Oregon elects to submit as part of a multi-state plan. Some future issues and questions that EWEB will track:

- 1) Although EWEB may not have any direct compliance obligations, how much risk exposure do we face?
- 2) If the state issues free "allowances" for greenhouse gas emissions to utilities, what if any amount should EWEB be entitled to?
- 3) Again, although EWEB may not have any direct compliance obligations, can we have a role as a partner with entities who do have a compliance obligation, i.e. "emission reduction credits trading" for renewables, energy efficiency, or other emission reduction actions?

State Carbon Legislation and Possible Ballot Initiatives

In the 2015 State Legislative Session, multiple bills were introduced to address Global Climate Change and Oregon's role in reducing greenhouse gas emissions. Of these bills, virtually all forms of emissions reduction policies were debated -- carbon tax, carbon cap-and-trade, carbon cap-and-dividend, and simple carbon cap, as well as one-off command-and-control non-market based carbon reduction policies. Many hours of testimony and debate occurred, but ultimately to no avail, the political will to take action on any of these approach simply did not coalesce.

The 2017 State Legislative Session will likely have more of the same, and while the outcome is difficult to predict, public sentiment does seem to be trending towards an enhanced call for action. For starters, after little or no discussion in the last presidential election between Barack Obama and Mitt Romney, Global Climate Change and the EPA's Clean Power Rule have already been topics in the first two Republican Primary Debates. It seems likely the topic will be one of the substantive issues discussed in the remainder of the primaries as well as the 2016 Presidential Election. As a result, the topic will probably also feature more prominently in the next state elections in 2016.

However, there has been word circulating that state environmental interests and clean energy advocates may be gearing up to submit a statewide ballot initiative addressing climate change. Early on, it seemed the initiative might be some iteration of one of the legislative measures considered in 2015. Now though, due to less than convincing polling results, there have been reports that the initiative may be to increase Oregon's Renewable Portfolio Standard from 25 percent to 50 percent. There are many questions about such a proposal that would need to be answered before the impact to EWEB could be discerned and EWEB will be attempting to learn as much and as soon as possible.