

Fact Sheet

February 2012

BPA proposes resolution to electricity oversupply

BPA is accepting comments through Feb. 21 on a proposal to address seasonal electricity oversupply by paying wind energy producers to curtail their output if necessary. The proposal comes after months of discussions with a number of key stakeholders to find an equitable solution to oversupply. While no formal long-term settlement has been reached, the proposal is based on concepts developed in these discussions.

BPA is releasing a proposal now based on the discussions to allow for broader public input ahead of a Federal Energy Regulatory Commission deadline. In a Dec. 7, 2011, order on BPA's interim Environmental Redispatch policy, FERC instructed BPA to file a proposal by March 6.

The periodic reduction of wind generation may not happen at all in some years. But when necessary, we believe this proposal strikes the best balance among a variety of regional interests.

With this proposal, BPA hopes to better address the oversupply challenge with the cooperation of many stakeholders. This resolution will help the agency preserve reliability, protect aquatic species including threatened and endangered salmon and continue its commitment to supporting renewable resource development while allocating costs in an equitable way.

What is the proposal?

As in 2011, BPA will take reasonably available actions to avoid displacing wind generation, such as by

adjusting non-essential maintenance on transmission lines so that maximum capacity is available to carry large amounts of power. BPA would also attempt to maximize generation at hydro plants and would work with the U.S. Army Corps of Engineers and Bureau of Reclamation to relieve excess runoff by spilling water up to total dissolved gas standards for fish.

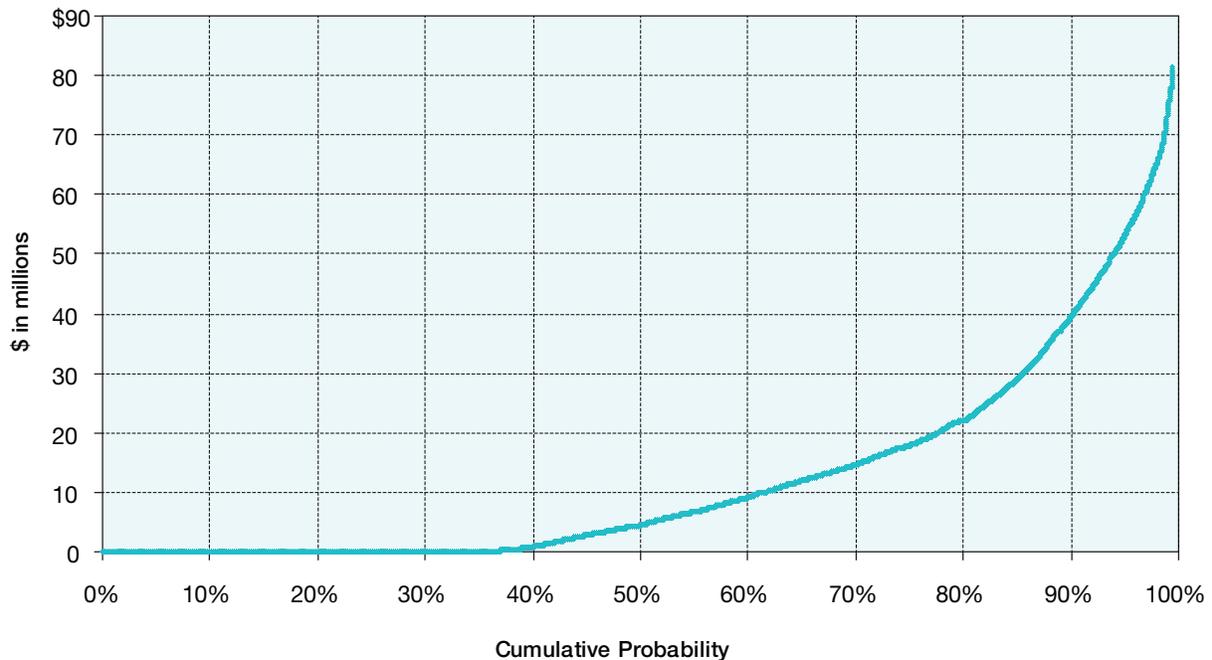
If electricity supply still exceeds demand, BPA proposes to reduce the output of any generation that does not receive renewable energy or production tax credits, primarily thermal and small hydro power plants, to minimum generation levels that do not affect reliability, and replace the output with free federal hydropower to serve their load. The generators will provide their minimum generation levels to BPA in advance.

If this is still insufficient, BPA will begin replacing generation in its balancing authority area that does receive credits, primarily wind, with free federal hydropower. BPA would displace these generators in order of least cost, based on auditable information they provide. BPA estimates that the least cost approach will lower the total expected costs by an average of about \$3.3 million per year compared to a pro rata approach. BPA proposes to compensate these generators to shut down so that they remain economically whole, but do not profit when their generation is curtailed.



Displacement cost estimate

April – June 2012



BPA expects costs to range from zero to more than \$50 million based on water, wind and market conditions. The expected average value is \$12 million.

How much will it cost?

BPA would limit payments to actual losses — the revenue wind owners would otherwise receive for generating, including production tax credits, renewable energy credits and revenue from power purchase agreements.

Based on data BPA has already received from wind energy producers, it appears the cost of paying wind generators to shut down in 2012 would average about \$12 million. This could range from zero to more than \$50 million in extreme conditions. BPA expects reductions in wind generation will likely not be necessary in about one of every three years.

BPA is committed to working with stakeholders to explore and implement ways to limit the potential exposure.

Who will pay?

During oversupply conditions, federal hydro and wind are the predominant operating resources. While arguments may focus on either resource as the primary

cause of the problem, both contribute to oversupply. BPA believes that spreading the costs roughly 50/50 between wind operators/purchasers and users of its Federal Base System is a reasonable approach, reflecting cost causation and avoiding many years of litigation and uncertainty.

Because BPA can allocate costs only through a rate proceeding, the actual cost allocation remains to be determined. BPA is proposing the 50/50 cost allocation mechanism would be a starting point for a 2013–15 BPA rate case.

If oversupply occurs this year and BPA pays wind generators to shut down, BPA will draw on Transmission Services' financial reserves until a rate case can provide cost recovery.

Is BPA filing a new Open Access Transmission Tariff?

BPA has been working with regional parties for more than a year to define a regionally developed open

Background

Hydroelectric dams generate large amounts of electricity during high river flows. But BPA must keep electricity supply from exceeding power demand, which can jeopardize the reliability of the power system. When there is insufficient demand, water is sent through spillways rather than through turbines to reduce generation. But spilling water can increase total dissolved gas in the river to levels that can harm aquatic species, including salmon.

In such conditions, BPA maximizes hydropower generation and offers the electricity at low or no cost to substitute for the output of coal, natural gas and other thermal power plants. Thermal plants typically shut down, saving fuel costs. But wind energy producers have a different financial structure; most still operate because their contracts provide revenues that depend on continued power generation from their generating units.

During high water conditions in 2011, BPA established an interim Environmental Redispatch protocol to manage electricity generation. From May 18 through early July 2011, during hours of low power demand, BPA replaced most thermal power and about 6 percent

of scheduled wind energy with low cost or free federal hydropower. During the spring 2011 oversupply, the wind reduction amounted to 1 to 2 percent of the wind generators' annual production.

Reducing thermal and wind generation helped maximize hydro generation and minimize total dissolved gas levels. BPA did not compensate generators, so the cost of wind curtailment was borne by wind operators and purchasers.

Wind project owners and other parties filed a complaint with FERC on June 13, 2011, arguing that BPA discriminated against wind projects by curtailing their generation and substituting hydropower for wind power.

In its order on Dec. 7, 2011, FERC directed BPA to provide wind generation comparable transmission service that is not unduly discriminatory or preferential. BPA filed a request for clarification and rehearing Jan. 6, 2012, which is now pending with the Commission. In the meantime the order is in effect, and BPA will comply with the order as BPA understands it.

access transmission tariff. We expect to wrap this up and file it with FERC by the end of March, but we intend to honor the process to assure issues raised by regional parties are provided adequate time to develop regional solutions. We are hopeful that once the few remaining issues are worked out, the tariff will enjoy widespread regional support from customers and stakeholders.

How to comment

Submit comments between Feb. 7 and noon Feb. 21 at www.bpa.gov/comment.

Next steps

Following the customer comment period, BPA will finalize its oversupply proposal and file it with FERC on March 6. BPA and regional parties will continue to work together to look for physical and legislative solutions to the oversupply problem.

BPA proposes this protocol will be effective for at least the 2012 spring season and would extend through 2015 assuming successful resolution and approval of the oversupply cost allocation rate case.

For background, go to www.bpa.gov/go/oversupply.

