



Fact Sheet

June 2013

The relationship between BPA and Energy Northwest

The relationship between BPA and Energy Northwest is unique among BPA's energy suppliers. Energy Northwest and BPA have a shared responsibility for Columbia Generating Station that runs much deeper than a power purchase agreement.

The simplest statement of the relationship is that Energy Northwest owns and operates Columbia Generating Station, the Northwest's only nuclear power plant, while BPA funds the nuclear plant and markets its power. Both organizations view Columbia as a valuable source of carbon-free power that is being operated safely. And both jointly seek excellent plant performance as defined through measurements of safety, power generation, reliability and efficiency.

A brief history

Understanding the present relationship between BPA and Energy Northwest requires a brief detour into history.

In the 1970s, the region believed it faced a severe energy shortage. In response, Energy Northwest, then known as the Washington Public Power Supply System, committed to build five nuclear power plants. BPA entered into various agreements to acquire the generating capability of three of those plants and agreed to provide financial security for the municipal bonds WPPSS issued to finance construction of those projects. As we know now, only one, Columbia Generating Station, was completed.

While Energy Northwest, a not-for-profit Washington state joint operating agency, owns Columbia and has its name on the bonds financing the plant, BPA carries nearly \$6 billion of debt on its books for the three plants, including two unbuilt, because it backs the bonds.

The debt service on those bonds makes up a significant portion of the Energy Northwest costs that BPA and its ratepayers pay today. The shared obligation also contributes to the unique relationship between the organizations whose economic lives are so intertwined.

The financial relationship is complex. More than 100 regional public utilities participate in the financing, which is a vestige of a bygone era in which BPA could not enter contract commitments to pay funds for power resources without receiving periodic appropriations for that purpose from Congress. So, "net billing" was developed in which the participating preference customers are obligated to send funds to Energy Northwest and receive offsetting payment credits to their power and transmission purchases from BPA. In other words, the participants are obligated to pay their proportionate shares of Columbia's costs to Energy Northwest and then receive credits from BPA on their monthly power and transmission bills. This agreement is the main credit support for the bonds.

Over time, new arrangements have been added through which BPA pays Energy Northwest directly and the participating utilities pay their BPA power and transmission bills to BPA. This latter agreement is a payment convenience only, however, and is not provided



as security for the bonds. If the payment arrangement were to fail, net billing would resume.

This “direct payment” relationship has proved flexible and advantageous to all parties. It greatly smoothed BPA’s cash flow and allowed the agency to reduce its power rates by avoiding the need for large cash reserves or expensive risk mitigation techniques.

The size of the original debt and the accompanying debt service have proved a challenge and an opportunity for the two agencies. BPA takes a broad view of the Energy Northwest net billed bond debt as a very sizeable but central and integrated part of BPA’s overall debt portfolio. Energy Northwest and BPA cooperated closely through BPA’s Debt Optimization Program to minimize the costs of BPA’s federal and nonfederal debt. With Energy Northwest’s agreement and participation, BPA refinanced or extended Energy Northwest debt to balance federal and nonfederal debt in ways that have allowed the agency to maximize its ability to borrow from the U.S. Treasury. All these efforts have been geared to keep BPA’s power rates lower than they otherwise would have been. Much of those rates are paid by BPA’s preference customers, almost all of which are net billing participants and some of which are members of Energy Northwest.

Even after the completion of the debt restructuring portion of the Debt Optimization Program in FY 2012, the two agencies have continued to refinance bonds and extend debt to maximize BPA’s ability to use its limited Treasury borrowing authority. They have also issued new money bonds to meet Columbia’s substantial capital needs to keep the plant operating efficiently and effectively on a long-term basis. For instance, in 2012, BPA and Energy Northwest worked very closely to take advantage of an opportunity to purchase nuclear fuel under terms that assure that Columbia’s needs are met at low cost.

The future

The relationship between BPA and Energy Northwest is not all about the past and debt service. While BPA and Energy Northwest are equally committed to Columbia’s safe and reliable operation, BPA is the party in the partnership that must recover the full costs of the nuclear project’s power production so the agency may at times emphasize cost and performance.

It is easy to understand BPA’s emphasis on cost and performance. Cost increases and performance reductions concern BPA’s customers because Columbia operating costs are included in the revenue requirement of BPA’s Power Service rate structure. Increases in Columbia costs cause upward pressure on BPA’s power cost that can be out of balance with the amount of power the plant produces. Similarly, if the project does not perform effectively, BPA loses a large portion of the energy supply that the agency and the region rely on to meet electricity demand. If the project is down, BPA has to meet needs with other sources, which may include purchases on energy markets.

BPA’s concerns about cost and performance must be expressed in constructive ways. Energy Northwest, currently made up of 27 of the state’s public utilities, is the sole owner and operator of the plant. BPA’s contract rights to influence decisions through the budget process are spelled out in a project agreement contract. BPA’s rights are limited to disapproving budgets and taking matters into arbitration to assess whether Energy Northwest’s proposed actions, capital investments or other decisions are prudent.

In practice, BPA relies on its onsite staff at Columbia to build relationships that foster cooperation and collaboration with Energy Northwest staff and management. BPA has also established incentive targets to help align Energy Northwest’s operations with BPA’s expectations. To make explicit BPA’s view of the link between Columbia performance and BPA performance, since 2009 Columbia performance has been a BPA key agency target.

The target has two parts — cost of power and overall performance. The cost measure is a dollar per megawatt-hour goal. The overall performance is measured by an index that is a weighted plant performance metric used by the nuclear industry to grade nuclear plant performance. The index includes a capability factor and a forced loss rate as well as safety systems availability, unplanned automatic plant shutdowns, employee radiological dose, plant water chemistry and industrial safety.

Since 2011, Columbia’s performance has been trending upward. This is a tribute to Energy Northwest’s new management team and staff, as well as to the history of a close working relationship between the two organizations.