

McCULLOUGH RESEARCH

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Date: April 3, 2017
To: Chuck Johnson
From: Robert McCullough
Subject: Who actually pays for the Columbia Generating Station?

The Columbia Generating Station (CGS) is the Bonneville Power Administration's (BPA) single largest expense. Between operating costs (approximately \$328.2 million in FY 2016)¹ and debt costs (an additional \$241.3 million in FY 2017)², the plant comprises 15.72% of Bonneville's preference customers' rate pool.^{3,4}

In 1980, BPA's basic rate structure was enacted in Section 5(c) of the Pacific Northwest Electric Power Planning and Conservation Act (known commonly as the Northwest Power Act).⁵ The basic concept was to provide the lowest possible rates to publicly owned utilities (cities, cooperatives, and public utility districts). Slightly higher rates were charged to BPA's industrial customers. Finally, the highest rates were charged to investor-owned utilities like Pacific Power and Portland General Electric.

As part of the negotiations leading up to the act, the higher rates to the investor-owned utilities were mitigated by a provision called the Residential Exchange. Simply put, the exchange provided a subsidy to residential customers of the investor-owned utilities based on the difference between rates charged to the public agencies and those charged to residential customers of the investor owned utilities.

A simple illustration is as follows: If the average rate to a public utility retail customer was \$30/MWh and the charge for similar rate components at the investor-owned utility was \$50/MWh, BPA would write a check for \$20/MWh (\$50/MWh minus \$30/MWh) to each of the investor owned residential customers. Last year this subsidy came to \$295.5 million.⁶

¹ Energy Northwest. "2016 Energy Northwest Annual Report." See page 25.

² Energy Northwest. "2016 Energy Northwest Annual Report." See page 46.

³ Energy Northwest. "2016 Energy Northwest Annual Report." See page 3.

⁴ Bonneville Power Administration. November 2016. "Power Rates Study Documentation." See page 67.

⁵ Bonneville Power Administration. "Pacific Northwest Electric Power Planning and Conservation Act with Index." See page 17.

⁶ Bonneville Power Administration. July 2015. "Power Rates Study." See page 172.

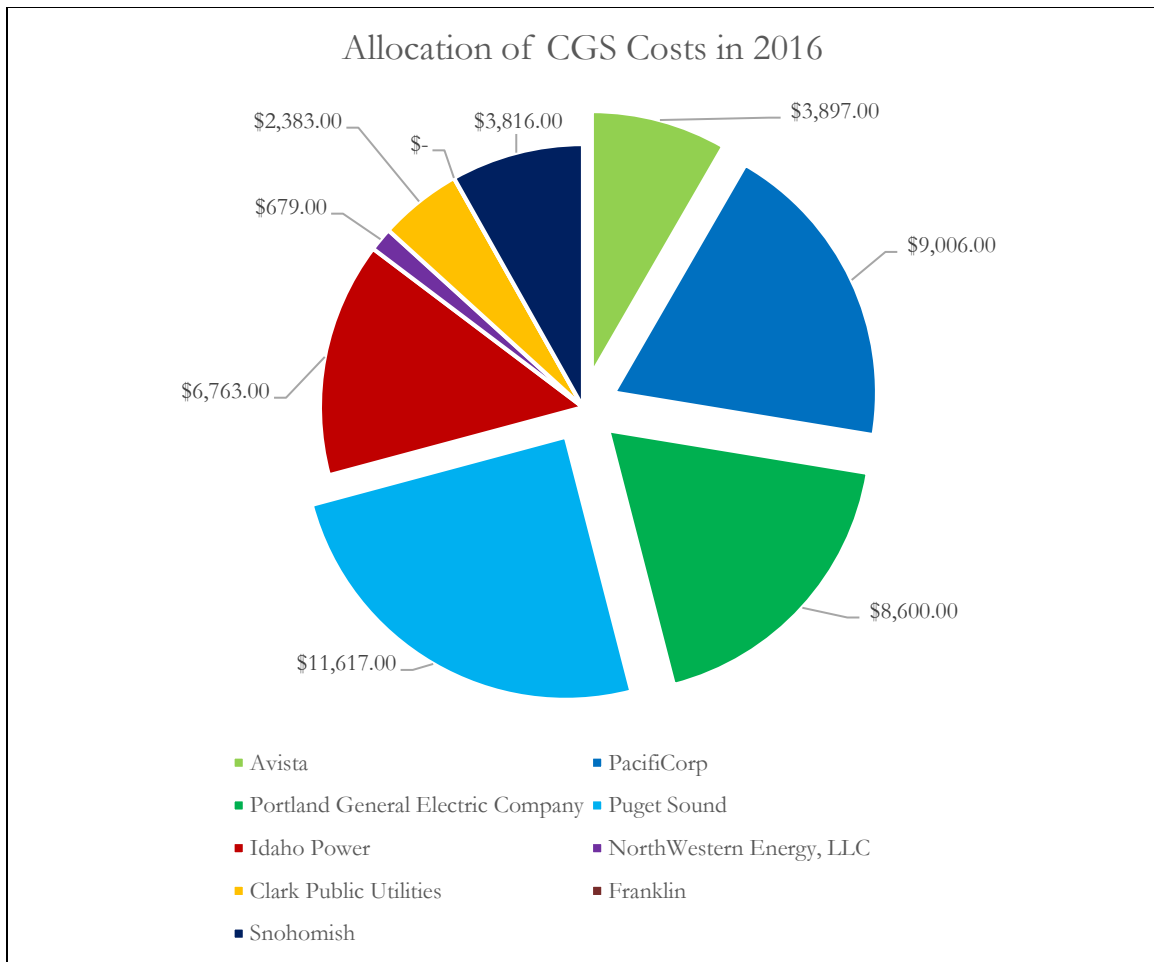
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The 1,157 megawatt CGS is a component of the public agency rate pool. The actual power from the plant keeps lights on in cities and counties across the Pacific Northwest. However, the power is not part of the generation portfolio used to light Portland. In Portland, homes are primarily served from the fossil fuel plants owned by Pacific Power and Portland General Electric.

Large cost increases at CGS are frequently the cause for rate increases at BPA. When such increases are required, the increased costs are borne by the utilities in the following pie chart.⁷



The utilities whose shares are “exploded” in the pie chart only receive costs from CGS. The power from CGS is reserved for public agencies.

⁷ Bonneville Power Administration. November 2016. “Power Rates Study Documentation.” See page 67.

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In 2012, a settlement was adopted by the Bonneville Power Administration that reduced the benefits to the domestic and rural customers of the investor owned utilities by approximately 75%.⁸ Since then, the benefits are apportioned according to a set schedule which will not increase. However, the subsidy could decrease if BPA's rates increased sharply due to a Fukushima type accident at the Columbia Generating Station.

The bottom line is that Portland residents cannot receive additional benefits from operations at CGS, but do remain on the hook for rate increase if the plant suffers a major problem.

⁸ Bonneville Power Administration. November 2016. "Power Rates Study Documentation." See page 67.