

Public Meeting Notes
Bonneville Power Administration
Regional Dialogue Policy Proposal
Wingate Inn at Missoula, Montana
1:30 p.m. – August 21, 2006
Attendees: Approx. 35 (not including BPA)

These notes are intended to summarize oral comments given at the Bonneville Power Administration's public meeting on its Regional Dialogue Policy Proposal. This summary is not a verbatim transcript. It will become part of BPA's official record.

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Opening Remarks

Mark Gendron, Vice President for Requirements Marketing, Bonneville Power Administration (BPA), convened the public meeting at 1:30 p.m. Attached is a list of attendees.

Gendron welcomed attendees and encouraged oral comments at the meeting and, if desired, separate written comments. The agency's Regional Dialogue Policy Proposal (Proposal) was released for public review on July 13, 2006. The official comment period will end Sept. 29, 2006.

He called attention to a special public meeting on Direct Service Industrial customer (DSI) service to be held Sept. 8 in Portland, from 10:00 a.m. to 4:00 p.m. in BPA's Rates Hearing Room.

Gendron summarized the Proposal and opened the floor for public comment without regard to topic. He said BPA wants to clarify the Proposal and encouraged questions.

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Public Comments

Margie Schaff, energy policy analyst for the Affiliated Tribes of Northwest Indians, said that at its meeting in May 2005, ATNI passed a resolution asking BPA to support:

- (1) New tribal utilities,
- (2) Rate structures that assure robust funding for fish and wildlife, cultural resource programs, and mitigate risks that funds will be unavailable for these programs,
- (3) Conservation of electricity,
- (4) Its use of renewable energy, the development of new products, and the purchase of renewables from tribal generation, and
- (5) Transfer service policies that support tribal utilities, including access to low-voltage services.

She asked about the impact on a utility's High Water Mark in the event of enactment of renewable portfolio standards. **BPA's Mark Gendron** clarified there would be no change in the HWM if the resource is not dedicated to load or if load loss occurs.

Schaff also asked about the augmentation provisions of the Proposal's fallback position, whether BPA would or wouldn't augment to support service to new public utilities. **BPA's RD project manager Scott Wilson** explained how new publics could be "phased in" at Tier 1 service and that the output of the Federal Base System (FBS) would be shared with new publics. Schaff suggested that BPA clarify these points because the Proposal makes it appear as if new publics "don't get power."

She expressed several areas of concern. First, regarding new small utilities, she said they "will not form under the Proposal. There's limited power for new small utilities." She said HWMs should be able to grow with utilities' load growth. "To limit them to their initial load makes it infeasible" for new tribal utilities to form and grow.

She also said the deadlines imposed under the Proposal are infeasible, and transmission policies are not workable. "Existing providers have a veto over new transmission for new utility formation. There will be no new utilities. This is unacceptable." She said transmission policies shouldn't be different for new publics.

BPA should be supportive of fish and wildlife recovery, she said, and implement the RD plan in full compliance with and upon completion of the biological opinion remand process.

As to a cost-control committee, ATNI might find it too expensive to participate frequently in meetings.

She called for an exception to the HWM-setting process for Yakama Power, a recently formed tribal utility, that recognizes its "build-out plan" to grow over time from the current 3-7 megawatt size to an eventual load of 42 MW.

BPA's technical meetings on transfer service promised no changes in transmission policy until 2011, she stated, yet BPA is now saying some changes will take place sooner. "The rules were changed on us," she said. "It will create a hardship and will affect utility operations." She also said that BPA's direct-assignment guidelines are unclear and that ATNI will be submitting separate comments on that topic.

She said her organization has appreciated the time and hard work put into the RD effort.

John Hines is the director of supply at Northwestern Energy. He confessed to a possible "jaded perspective resulting from the prior Montana allocation experience" relative to the setting of benefits under the residential exchange. BPA's public customers pay for the system, he acknowledged, "but the law speaks to the residential exchange. Settlement must be linked to the law."

He said whatever is allocated to the investor-owned utilities in total under the Proposal must also include how the sub-allocation is to take place within that number for individual IOUs. "Montana received short shrift," he said. "The amounts must be allocated up front," he said. He acknowledged the importance of the total dollar amount, but added "there has to be a reference back as well."

Doug Mood of the Montana Public Service Commission said the four Northwest state commissions recently conferenced by telephone and concluded BPA's proposed \$250 million for the residential exchange represents a "significant decrease" in benefits. The commissions, he said, are drafting a letter recommending \$390 million per year, and in no case less than \$350 million.

Mood referenced a 1984 court decision under which a judge gave BPA wide latitude on rate matters, “but it didn’t give you the ability to just pick a number; you have to rationalize it with a formula.” He added that the Montana PSC would be sending BPA a letter and that they “look forward to further debate” on the matter.

Steve Knight, general manager of Columbia Falls Aluminum (CFAC), said his firm has been a Direct Service Industrial (DSI) customer of BPA since 1955 and sees DSI service as “the only one issue of post-2011 service that is a matter of life and death.” He said BPA has put forth “a limited range of options, but did capture an option that would give the ability for CFAC to retain production.” He said his firm prefers physical power to a financial payment, and that it hopes the latter “works as a stop-gap measure.” A financial payment is not appropriate for the long run, he said.

As to the question, Why serve Northwest aluminum plants? – he would answer, “Why not?” In the past BPA insisted on directly serving CFAC and continues to have the legal right to do so. BPA’s sales to CFAC have dwindled from 100 percent in 1955 through 1996 to 50 percent now.

CFAC is important to the Flathead Valley, he said, because its presence supports the community and businesses. “We want to continue to offer high-paying jobs,” he closed. “To not serve [CFAC] would be unfair and just plain wrong.”

Brian Doyle of Columbia Falls Aluminum trade representative said CFAC’s employment has fallen from 1,500 to 160. The company has gone from four potlines to one. They had good paying jobs, people made a good living, and there were benefits to the Flathead Valley and the State of Montana, he said.

He urged BPA to supply power to CFAC at cost-based prices.

Bill Drummond, the manager of the Western Montana Electric Generation and Transmission Co-op, advised BPA not to take his comments as meaning his seven-member organization objects to the Proposal. WMG&T utilities serve 100,000 consumers, he said, and the majority of this load consists of residential and small commercial accounts.

He said his group supports the direction of utilities’ “taking more responsibility for their load service.”

Among his group’s first priority issues are the use of FBS flexibility, with a concern about BPA’s ability to provide load service while facing additional demands on the system because of wind integration, renewable portfolio standards, salmon flows, and other factors. He said that preference applies to both capacity and energy. “We want to be assured flexibility is being reserved for preference customers so Bonneville doesn’t have to go to market to purchase flexibility.” He urged BPA to adopt recall provisions to safeguard FBS flexibility and that it be provided at the cost of service, not at market rates.

There is too little discussion about transmission issues in the Proposal, he said, warning that without adequate transmission in place, the plan “may be unworkable.” He urged BPA to “bring TBL into the dialogue.”

Drummond also commented on the proposed level of IOU benefits of \$250 million as “lacking in substantial foundation and not furthering the settlement. It’s much too high.” He said that public service commissions “must be made to realize the lack of settlement carries a risk.” He explained that in addition to the law’s establishment of an average-system-cost methodology

to provide exchange benefits, “there’s also the 7(b)(2) rate test to protect [preference customers] from exorbitant costs.”

He raised concerns BPA’s “process sequencing” that requires customers to make choices before products are defined and Tier 2 costs are known.

As to cost control, he said that true-up mechanisms are highly controversial, “can be vehicles for financial mischief,” and are in general not good cost-control methods. Regarding contract enforcement, he expressed concern about BPA’s call for utilities to “forego opportunities to challenge” the RD paradigm and “give up remedies” as part of the deal. “It will require more work,” he said.

The setting of High Water Marks is to use 2010 load and resource data, he noted. Some Montana customers have existing power supply contracts that expire after the 2010 date. The concern is that the HWMs of these utilities will be decremented for these contracts in 2010, shortly before the contracts expire. WMG&T members are interested in exploring alternatives for utilities that have resources expiring beyond 2010. He also noted that utilities purchasing Tier 1 and Tier 2 from Bonneville would see their Tier 1 purchases decremented if the loss occurred within a rate period. He recommended creation of another type of Tier 2 product – a short-term product that could be purchased as a way to hedge against short-term load loss in lieu of Tier 1 decrements.

He urged BPA to clarify its position on pooling and stated his understanding that BPA does not object to “operational pooling.”

The general transfer service (GTA) policy that speaks to an Oct. 1, 1996, cutoff for new points of delivery is “arbitrary,” he said, urging adoption of a 2011 date instead to coincide with the new contracts. BPA’s proposed maximum annual payment of \$800,000 toward GTA costs should include an indexing inflator, he said. The proposed \$7 payment cap on annexed load service is “unfair, a death penalty concept.” BPA’s inclusion in the Proposal of staffing requirements to implement GTA service was “unnecessary and gratuitous.”

Regarding costs shifts from Tier 2 to Tier 1, he said they should be “limited, extremely rare, and delineated” as to rationale. “Tier 1 shouldn’t subsidize Tier 2.” BPA’s proposal to fund up to \$21 million of renewables facilitation should not be paid for out of Tier 1 because Tier 1 purchasers are not beneficiaries of the resources.

On conservation, he used the term “bleed over” of costs from Tier 2 to Tier 1 and called on BPA to ask: “Who benefits and who pays for the conservation?” He noted that all customers would be required to pay for conservation costs in Tier 1, but “not all [customers] benefit. Conservation costs should be paid by Tier 2.”

His organization, Drummond said, would reserve comment on DSI service, while noting it would be inappropriate for BPA to augment the FBS and have Tier 1 customers pay for it. WMG&T has “some bias toward financial benefits” for the DSIs, he added.

On the matter of the continuation of tax-exempt status of bonds for Columbia Generating Station, he said putting the funding burden on “cooperatives” alone was “a really bad idea; it shouldn’t be in the paper.” He announced his group would have more discussion with BPA on this idea.

He thanked BPA for the “tremendous progress” on the RD and for including the Public Power Council’s allocation concept, which he observed was likely a “stretch” for the agency.”

Vicki Henley of Alcoa said she was “wearing two hats – one for Jack Speer,” an Alcoa official unable to attend, and the other for herself. She said today’s meeting is about “broad context” and “fairness” and described how the federal government invested in the Northwest by building the hydroelectric system and transmission grid.

“The allocation must be fair,” she said, and it must address all regional interests, including consumers, environmentalists, and the DSIs. The various federal acts governing BPA “recognize the importance of low-cost electricity for the economy, for jobs, and for the existence of the DSIs.”

She said Alcoa started its operation in 1940 in Vancouver, Wash., and would have been served by Clark PUD had it existed then. “It was a historical accident that the aluminum companies bought power directly” from BPA, she said. In 1980, the aluminums were “asked to stay” in the region, and historically, they’ve been important sources of metal for World War II and to provide economical power reserves.

She mentioned Alcoa’s two plants – the one at Ferndale that purchases all its power from BPA and the other at Wenatchee that takes half its power from BPA, the other half from Chelan PUD. A Richard Conway study indicated that 3,310 jobs and a \$67 million payroll are tied to Alcoa’s continued access to BPA power.

“Unlike Port Townsend Paper, we got no power,” she said, referencing a recent BPA transaction. She mentioned Alcoa’s receipt of 320 MW of “power benefits” at a net cost of \$36 per megawatt-hour, contrast to the \$27 cost-based power BPA sells to utilities. Even with the benefit, “it’s still too high. Aluminum plants can’t operate” at that level, she said. “We can afford to pay high power rates for the short term, due to the high aluminum market, but only as a bridge.”

CRU Strategies said Alcoa could operate at BPA’s cost-based rates, she stated. “BPA should serve Alcoa post 2011 with 560 MW of power at Tier 1 through utilities, the same as Port Townsend.” This amount of power, she said, contrasting it with the 3,000 MW previously supplied, is “a reasonable amount going forward. It would give Alcoa a chance to operate.”

“Now ‘my’ hat’s on,” she said, stating that the DSIs “aren’t the reason for the problems of the energy crisis and high power rates.” She said the Northwest Power Act mandates BPA’s main job as serving the Northwest region. “The DSIs are part of the region,” she said. “We have a commonality” because we’re “here for peoples’ sake. We need our jobs.

“At home I have a PUD,” she said. “I can’t pay the PUD without a DSI job.” Eliminating the DSIs won’t solve existing problems, she explained. “Work together to find a solution.”

Gregg Jones, president of the steel workers union at Columbia Falls Aluminum, said he’s worked 32 years at CFAC. “They’re good paying jobs, but we used to have a lot more.”

He mentioned there are second- and third-generation employees at the plant, and that his brother was recently “laid off because of no power” and will lose 28 years of service in the aluminum industry.

Jones urged BPA to offer the DSIs “another power agreement to survive through the tough times we’re in.”

Greg Jergenson, chairman of the Montana Public Service Commission, said that he supports Commissioner Mood’s earlier comments. He called attention to the periodic challenges from “Washington administrations” that BPA be required to sell power at market rates and asked,

“Can this proposal can immunize the region from this? Would this [proposal] be out the window?”

BPA’s Mark Gendron replied that the president’s budget proposal was not included in BPA’s RD proposal although the agency is accepting comments on it. He announced a separate meeting to discuss this matter, at a time and place to be announced.

Jergenson expressed his concerns about the vulnerability of the region to outside interests. “Every time it’s come up, we could raise up the customers, and the body politic has rallied to fend it off.” The commissioners, he said, have networked and have spoken with a unanimous voice from Bonneville’s region [to assure any proposal is] dead on arrival.” He warned that “that sort of unanimity starts to fall apart if some stakeholders have an entitlement but others have a privilege to [BPA] benefits.”

He said a “formulaic basis” is the “best way to maintain cohesiveness in defense of the federal power agency.” The region, he said, should carefully observe that disputes are minimized by utilizing approaches “that are most formulaic in the Act” and therefore less subject to “horse trading.”

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There were no other comments or questions and the meeting was tabled at 2:55 p.m. BPA attendees remained present until 5:00 to receive any additional testimony (there was none).

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Respectfully submitted,
Rodney A. Aho, Notetaker
Bonneville Power Administration
(503) 230-3634

Attendees
BPA Regional Dialogue Public Meeting
Missoula, Montana – August 21, 2006

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|-----|--------------------|----------------------------------|
| 1. | Alsaker, Tom | Missoula Electric Cooperative |
| 2. | Anderson, Larry | Senator Conrad Burns |
| 3. | Bailey, Robert | Ravalli Co. Electric Cooperative |
| 4. | Bartlett, Stacy | Ravalli Co. Electric Cooperative |
| 5. | Beaudry, Haley | Columbia Falls Aluminum |
| 6. | Bras-Benson, Cindy | Mission Valley Power |
| 7. | Brown, Ric | Ravalli Co. Electric Cooperative |
| 8. | Desch, Heidi | Hungry Horse News |
| 9. | Diehl, Hugh | Alcoa |
| 10. | Doyle, Brian | Columbia Falls Aluminum |
| 11. | Drummond, Bill | W. Mont. G&T Cooperative |
| 12. | Flaherty, Pat | Alcoa/IAMAW |
| 13. | Fyant, Gordon C. | Mission Valley Power |
| 14. | Henley, Vicki | Alcoa/IAMAW |
| 15. | Hines, John | Northwestern Energy |
| 16. | Hoke, Terry W. | Missoula Electric Cooperative |
| 17. | Hulett, John | Missoula Electric Cooperative |
| 18. | Jacobsen, Sharon | Missoula Electric Cooperative |
| 19. | Jergenson, Greg | Montana PSC |
| 20. | Jones, Gregg | Columbia Falls Aluminum |
| 21. | Jones, Matt | Senator Max Baucus |
| 22. | Kilminster, Joe | Missoula Electric Cooperative |
| 23. | Knight, Steve | Columbia Falls Aluminum |
| 24. | Mood, Doug | Montana PSC |
| 25. | Moran, Kim | Montana PSC |
| 26. | Mueller, Gerald | |
| 27. | Nicolai, Floyd | Mission Valley Power |
| 28. | Pitts, Gene | Mission Valley Power |
| 29. | Rosquist, Will | Montana PSC |
| 30. | Schaff, Margie | Affiliated Tribes of NW Indians |
| 31. | Schultz, Tom | Congressman Denny Rehberg |
| 32. | Schwenk, Cathy | W. Montana G&T |
| 33. | Shourds, Lisa J. | Mission Valley Power |
| 34. | Stauffer, Mark | Northwestern Energy |
| 35. | Stromberg, Jim | Columbia Falls Aluminum |
| 36. | Aho, Rodney | BPA |
| 37. | Altman, Brian | BPA |
| 38. | Beede, C.T. | BPA |
| 39. | Burbank, Nita | BPA |
| 40. | Gendron, Mark | BPA |

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|-----|-----------------|-----|
| 41. | Kuntz, Gail | BPA |
| 42. | McCombie, Marla | BPA |
| 43. | Stiles, Rebekah | BPA |
| 44. | Thompson, Garry | BPA |
| 45. | Wilson, Scott | BPA |