Public Meeting Notes

Bonneville Power Administration
Regional Dialogue Policy Proposal
Franklin PUD Auditorium, 1411 W. Clark
Pasco, Wash. – 1:30 p.m. to 5:00 p.m. – August 7, 2006
Attendees: Approx. 34 (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.

Gendron summarized the Proposal and opened the floor for public comment without regard to topic. He said BPA wants to answer questions and clarify aspects of the Proposal, adding the agency is open to ideas during the comment period that might lead to consensus on issues.

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Public Comments

Jean Ryckman, Manager of Franklin PUD, referenced a recent article in the *Tri-City Herald* that used the term "excellent" to describe the Proposal. She said she has appreciated the work BPA has done to develop the Proposal through collaboration and consensus.

She finds remaining opportunities to improve the document; it's not yet perfect. Of concern is the remaining short timeline that includes a 60-day comment period and a window to sign contracts that become effective in 2008, with High Water Marks to be set in 2010. "We have to plan our resources, too," she said, in reference to BPA's statements that it needs for sufficient lead time to arrange for load service.

"We need more clarity on policies and the implementation of policies," she said. "There are a lot of details that need to be worked out." She again mentioned an "extremely aggressive schedule" to complete the Regional Dialogue (RD) work.

"Work is needed to define costs and credits in Tier 1 and Tier 2 to prevent the migration of costs," she said. "Tier 2 customers should bear all the costs, benefits, and risks of Tier 2 power."

Franklin PUD is a Slice customer, she explained. "It is important to keep Slice a viable product. You need to go forward in a manner that utilities can still get benefit from it."

“Other industrial customers in the room are subsidizing the DSI rate,” she said, in the context of the impact on BPA’s preference rate due to possible future Direct Service Industrial service. “Consider it carefully; the jobs in the Tri-Cities area are on a tight margin.”

Bob Bertsch, President of Benton PUD, said BPA is an important business partner.

Benton PUD, he said, is supportive of an allocation if done fairly. As a Slice customer, his utility has faced an allocation of sorts since service under that product started in 2001, although the current contract does not fall under the proposed allocation rubric. He said that, as a Slicer, Benton PUD has not needed BPA to augment the system on its behalf. Yet because of BPA’s augmentation activities, Benton PUD’s retail rates rose to among the highest levels in the region, although now rates are leveling out. “We don’t want to see this repeated,” he said, calling for a durable solution. “Stay the course for 20 years; get it done.”

As to the 60-day schedule for comments, it should be extended beyond September, he said. “Don’t allow a process that allows a handful of customers to kill consensus.”

Hank Kosmata of Richland asked whether BPA plans to augment by 300 megawatts (MW) “for public load only.”

BPA’s RD project manager Scott Wilson responded in the affirmative and that the cost of this augmentation would be in the Tier 1 rate. He clarified the circumstances under which BPA might secure additional resources to meet other service obligations.

Jim Sanders, Benton PUD’s general manager, said that BPA’s proposed treatment of the Centralia resource is divisive. “The folks it impacts don’t know whether to focus on that or the Regional Dialogue,” he said. BPA has done a “disservice to the region” by excluding Centralia discussions from the equation.

IOU benefits are a key part of the Proposal, he said. “A settlement is not going to happen until BPA puts a heavy hand on everybody, including the public utility commissions,” to force a solution. “BPA has got to play a key role in a significant way if IOU benefits are to get resolved in the 60-day window.”

He stated BPA’s proposed figure of $250 million for the IOUs is “not a good place to start. The midpoint is $195 million.” He said both Tier 1 and Tier 2 rates need to be part of the escalation equation.

He called Slice an “effective product to integrate non-federal resources.” As BPA goes through its analysis, “derive decisions out of the data,” he said. “Do your analysis, identify problems, and deal with them in an open process.”

He said his utility disagrees with BPA’s proposal to limit the amount of Slice, to eliminate customers’ provision of ancillary services out of Slice, and to eliminate Slicers’ system capacity shares. “We’d like to understand how BPA came to these conclusions.”

“The DSI benefits needs a full, open airing – again,” he said. “Our position is that benefits should end in 2011.”

As to tiered rates, he said, “Assure the allocation-of-costs wall is very difficult to breach so that Tier 2 costs don’t flow to Tier 1.”

On the subject of conservation and renewables, he pointed out that Washington Initiative 937 “might pass” and if it does, it would mandate Benton PUD to acquire all cost-effective conservation and to reach renewables milestones. “Make a clear delineation as to who will be mandated," he told BPA, encouraging further discussion on the matter of entitlement to Tier 1 power in the context of mandatory renewable portfolios.

He said Benton PUD would be "anxious" to participate in any discussion to reach consensus on the president's budget proposal. "BPA should lead a process to explore how that proposal might be part of an overall solution."

Ray Sieler, the director of Richland's energy services department, complimented BPA on the collaborative effort to develop the Proposal. "We are concerned," he added, "about the quick time frame that is to end in September."

He asked about the definition of "consensus" and whether it needed to be reached by all customers – DSIs, IOUs, and publics – or just one of those parties. He called BPA's proposal to adopt the "fallback" if consensus is not reached an "ultimatum" and wondered whether it did not in fact reflect "where BPA wanted to go."

On the level of DSI service he said, "Whatever you set it at, [remember] we have large customers that are not being subsidized."

He commended BPA for keeping costs down, especially in keeping Tier 1 costs under control. Cost savings "shouldn't be a source for new augmentation or new programs," he said.

As to conservation credits, he said, "Richland tries to promote local cost-effectiveness and control and partnerships. BPA has initiated third party agreements. That is of concern to us." In the area of renewables, BPA needs to "exercise cost-control measures."

He said the Proposal fails to mention anything about Tier 1 pooling, but should. "I'd be interested in it."

Harking back to the fallback notion, he asked whether BPA had investigated the cost of implementing it versus the proposed package. He also noted his board's concern about the "short turnaround time" to resolve issues.

Bob Crump is the general manager at Kootenai Electric Cooperative. He asked for clarification of the calculation of High Water Marks (HWM) and Federal Base System (FBS) capability, and said generally his utility has many similar questions about the technical details of the Proposal. He wondered specifically about the impact a major reduction in the FBS – say, due to "adverse fish conditions" – might have on HWMs and what Kootenai would have to do in terms of contingency planning. He expressed a concern that the contemplated three years between contract signing and deliveries of power is a short lead-time to make resource arrangements.

Scott Wilson of BPA explained the derivation of the 7,100 average MW figure for the FBS in the Proposal and how reductions in it might affect HWMs. Wilson said the HWM sets a "dividing line" between Tier 1 and Tier 2 costs, and that BPA is obligated under law to serve the net requirement of Northwest preference customers, including full-service purchasers like Kootenai. "You'd still get your full requirement [of load service], but with a higher percentage of Tier 2," Wilson said.

Mark Gendron of BPA clarified how individual customer HWMs would be adjusted to account for both utility- and BPA-funded conservation and, with Wilson, explained that the individual HWMs would still total to the aggregated Tier 1 group HWM. Conservation affects the *distribution* of HWMs only, Gendron added.

Crump said Kootenai will submit formal comments through the Northwest Requirements Utilities (NRU) organization.

He asked how the Slice megawatts would be allocated, or reallocated, in the event more purchasers sign up for the product than are planned.

Ted Barham of BPA's slice team replied that the Slice amount would be allocated in a manner similar to what was done when the product was oversubscribed during the Subscription process; it will not be apportioned first-come, first-served.

Randy Gregg of Benton PUD said the Slice allocation in 2001 was "a painful, divisive process."

Mark Gendron of BPA acknowledged the comment and noted that the customers had worked out an allocation amongst themselves, with BPA subsequently accepting their recommendation.

Steve Eldrige, who is the general manager of Umatilla Electric Cooperative, said to look for ways to unite customers. "In the future it's going to be 'how close we can stay together.'" He thanked BPA staff for working on the Proposal. "It's pretty good," he said, "although there are some things that need more definition, so everybody understands. The devil's in the details."

As to service to publics, he observed there's a "fair chance everyone will be deficit in 2011. The sooner we're clear on pooling, the better." He asked whether HWMs are floating and if so, who fills in the gaps as the hydro system varies?

Eldrige said that his utility was "treated most respectfully by BPA in 1996 when we were at risk [of being lost] to them." He wondered whether other power suppliers would do the things that BPA has in terms of making the business relationship difficult. "I urge you to begin changing."

Regarding his utility's participation in the Slice product, he said, "We aren't as well off as if we had stayed a Full Service customer, or a 'Pre-Subber.'" He said Slicers like Umatilla have to meet what he termed instantaneous capacity and urged BPA to "be clear as soon as possible how that will work." He said he's not sure BPA wants a robust Slice product. "If not, let us know."

He acknowledged the need to contemplate some fairer form of service for new publics than "a scenario [as BPA proposes] that publics would have to wait in line or have a harder process." He advocated a three-year rolling window of opportunity to take lowest-cost power and reminded attendees of the long lead time to become an operational utility. "It took [the City of] Hermiston more than three years," he said, "and I don't see how that [three years] is going to match up. BPA must be in lock-step with its core customers." He said the 250 MW by which BPA is willing to augment the FBS for service to new publics is "quite a bit of energy."

On the residential exchange, he said the CEO of PacifiCorp had made a deal to politically unite the Northwest during formulation of the Northwest Power Act, resulting in support from all, including the DSIs. "Now BPA is paying my IOU competitor to [beat] my rates. It doesn't meet the test [of the law's intent]. If an IOU's rate decreased below the Bonneville rate, they still got a benefit. We can't do that again." Since the statute requires a residential exchange, he recommended that BPA "be strong with the PUCs. They can't tell us what to pay. Pick a number that's a fair representation that keeps its value through the contract for the IOUs and the publics."

Regarding DSI service, he said he was willing to support a consensus position but stated there is "no legal requirement to support" the aluminum industries. "Part of every dollar paid to the DSIs comes from my customers." He acknowledged the DSIs provided interruptible load for many years and other historic benefits, "but that's all gone. It's money out of my pocket into somebody else's. You [BPA] are just the bag man. If there's not a clear benefit to public power, why should we be expected to fund it?"

There is no clear rationale for BPA to continue funding conservation, he said, other than if the resource is called for in a least-cost plan or "someone wants to hire you to do it. To continue to do conservation doesn't make sense."

He asked whether the Proposal has been "fully vetted with D.C.," to which there was no response, and whether the public meeting notes would be posted, to which **Nita Burbank of BPA's public involvement group** replied in the affirmative.

Jack Speer of Alcoa said that the meeting is about "broad contexts" and advised attendees there would be a public hearing on DSI issues on Aug. 29 at which people can hear "the full story when [Alcoa] will make its case." [Please note BPA has subsequently rescheduled this meeting for Sept. 8, 2006.]

He spoke to the issue of "fairness to all stakeholders," enumerating the various interests, including the DSIs, public customers, and IOUs.

He described the beginnings of DSI service back in 1940 when Alcoa became BPA's first directly served large industrial customer, at a time that predated the existence of Clark PUD, which otherwise might have served the company.

He said the aluminum companies have provided jobs, metal for World War II, and economical power reserves to the system. "Serving our loads is no more of subsidy than serving any other industrial loads in the Northwest," he said, citing a study by Richard Conway that states 5,630 jobs in Washington State would result if Alcoa operated at full capacity. "Jobs are important to the local communities," he said.

He mentioned the recent power sales contract BPA offered another DSI customer, Port Townsend Paper, contrasting that transaction with BPA's proposal to provide monetary benefits, not power, to the remaining DSIs. "It's not a subsidy," he said. "Saying that just doesn't hold water."

He said the aluminum business is good and that demand for the product will grow, but that in the long run, his firm cannot afford high rates. "It's likely the plants will close if they don't get a fair rate. We don't have to leave the Northwest if we get an economic power supply."

He said that as a solution, BPA should allocate Tier 1 power to the local utilities to serve the DSIs. "If BPA provides 560 MW to the aluminum industry, the Alcoa plant will likely survive and continue to provide economic jobs to the region. Of the 3,000 MW formerly served, 560 MW is not a bad compromise."

Bob Crump of Kootenai Electric commented on the issue of DSI service versus the residential exchange. He said the quid pro quo during development of the Northwest Power Act was for the DSIs to receive power service in exchange for their funding of the residential exchange program. "It's not a fairness issue," he said, "it's a matter of law."

BPA attorney-adviser Tim Johnson clarified there was a sunset provision in the Act that called for the DSIs to fund the exchange for the first five years of the new power contracts.

Jack Speer of Alcoa added, "Then the residential exchange costs were melded into BPA rates with the caveat of the 7(b)(2) rate test." He said Congress tried to avoid an allocation and gave BPA authority to acquire and meld resources and to continue to serve the DSIs. “Congress’ intent is to serve the loads in the Northwest,” he said. “Now it’s a question of what’s fair.”

Crump asked whether the economically challenged aluminum companies simply could not afford the cost of the exchange as to why their subsidy payments were discontinued.

Johnson clarified, “The fix was to avoid a civil war. The notice of insufficiency was issued. The fix was the Act’s authority for BPA to meet regional load, including [that of] the DSIs.” He explained that the extra cost of the exchange was covered in the first five years of its operation by including program costs in the DSI rate. “Everything we do even now has to be cost effective,” Johnson continued. “We are not doing a physical allocation of power. You’ll have ‘PF 1’ and ‘PF 2,’ but BPA will still have the statutory obligation to serve.”

Crump added, “It fell to the preference customers to fund the residential exchange because the DSIs couldn’t afford it.”

Larry LaBolle of Avista asked how much reduction in the residential exchange should occur as a result of the 7(b)(2) rate test. He said this is the statutory mechanism by which BPA’s preference customers “get protection” against unreasonable exchange costs. “People have been forthright stating their interests,” he said, in reference to recent exchange settlement efforts. “But the Ninth Circuit litigation has stopped discussions. The preference customers think the court will rule in their favor, so why negotiate with you [BPA]? Before you know where the case goes, it’s hard to negotiate and get to the numbers Steve Eldrige talked about.”

Randy Gregg of Benton PUD asked whether the 560 MW contemplated for sale to the DSIs would require BPA to make augmentation purchases.

Mark Gendron of BPA responded affirmatively, and that the 560 could be in addition to the potential 300 MW for preference service augmentation and another possible 250 MW to serve new publics. These purchases, he said, would be “buy and meld” acquisitions. He added, “You can see we’ve identified a wide range of alternatives [for DSI service],” announcing a special BPA public meeting on DSI service would be held, at a time and place to be posted on BPA’s website.

Steve Eldrige of Umatilla Electric commented on the disparity between the proposed 20-year contracts and the 17 years of power deliveries under them. “If we invest in hard assets, will we have some continuation rights?” he asked in the context of his utility’s resource planning obligations. He asked whether the Proposal addresses the time period following termination of the new contracts.

Mark Gendron of BPA said the Proposal does not address the issue.

Eldrige commented that BPA should entertain the matter in the new contracts. “There should be some period before the end that addresses how to proceed, like now,” alluding to the interval of time preceding the termination of existing contracts that is being used for transitioning.

Bob Crump of Kootenai stated that transmission construction has long lead times and there are unresolved issues associated with transmission under the new contracts. “I have no confidence they’ll be resolved in the timeline to allow power deliveries,” he said, adding, “I guess [in light of this] I shouldn’t be so paranoid about having to buy Tier 2 power.”

Vicki Henley, a union leader for the machinists and a Ferndale plant employee, testified, “We’re all here for the same reason: to share with people.” She said she “doesn’t want the DSIs to become a dirty acronym. We just want power to keep our jobs." She stated that her company received electric service "before there were PUDs to take power from."

She said, "We thought we were efficient before, but now we're even more so." Serving the DSIs is a just cause, she said. "We don't want welfare, we don't want special deals. We wanted what Port Townsend Paper got: to buy power from the local PUD." She noted that her 450 employees are "counting on Bonneville to come up with something we can all work together on."

Ray Sieler of Richland asked when BPA would "get its arms around Tier 2 rates."

BPA's Mark Gendron responded that several steps would have to be undertaken – the completion of a net-requirements methodology, a tiered-rates methodology, and the production of new contracts – parallel processes with significant opportunities for public involvement. "We are looking to the customers for help," he said.

Steve Arneson of Richland's Utility Advisory Committee asked whether and how the rates would appear in individual customer contracts.

Scott Wilson of BPA responded that the answer could vary. He spoke to the idea of different groups of customers being able to pick different contract or product approaches, not unlike the way mutual funds are chosen.

Bob Crump of Kootenai asked whether BPA would consider allowing a group of utilities to acquire a specific resource.

BPA's Scott Wilson replied that "'consider' is a nice word," explaining that details of customer resource choices would be worked out later, during contract implementation. BPA, he said, is "setting up specific components as options to enable you to buy Tier 2 or not."

Crump wondered whether it's reasonable to assume Tier 1 would be cheaper than Tier 2.

BPA's Gendron responded, "We've been careful to recognize that may not always be the case," to which Wilson added, "We don't want stranded costs."

Larry Felton of Energy Northwest asked whether a customer must decide to commit to a Tier 2 purchase before knowing the rate. He said that knowing what the alternatives are to Tier 2 "begs the question of price."

Scott Wilson of BPA said it was a matter of the timing of the rate process. "That's going to be a challenge – the proverbial chicken and egg. What we're really talking about now is, what's the approach to setting the Tier 2 rate – and whether to take care of load growth yourself or rely on BPA? If BPA, then which approach will you want?" He said that for planning purposes, the agency will need commitments in advance of purchases.

Mark Gendron said BPA's intent is to provide customers a choice whether to "bring their own resources to serve load growth or [to purchase] Tier 2" from BPA. "We have no intention to express a preference; we just want to reflect the costs, so that Tier 2 is similar to other market alternatives."

On the April 2008 date mentioned in the Proposal, **Barry Bush of Energy Northwest** asked, "How soon will utilities have contracts, and will they spell out the costs that are in Tier 1?"

Referencing p. 6 of the Proposal, BPA's Scott Wilson said, "We have different processes set up. There will be draft contracts, a public process, and a window for negotiations based on [contract] templates. But we won't know the rates" prior to contract signing.

Steve Eldrige of Umatilla asked, "Could we see the outcome on our rates under different scenarios?" – for example, if a utility chooses to undertake different levels of conservation or if the FBS capability shifts dramatically.

Scott Wilson of BPA ran through a few numerical examples of how HWMs would be set given different input variables, like changing conservation savings or mandated renewable resource portfolios, and promised to publish examples on BPA's website.

Lori Sanders of Benton PUD asked about the source of funds BPA uses for conservation and renewable resource programs or other initiatives.

Mark Gendron of BPA acknowledged that "customers" provide BPA's revenues. He encouraged attendees to comment on all aspects of the Proposal, especially if they appear controversial. "We've asked for feedback on this part of the proposal and we look forward to your comments. Bonneville is pushing hard for consensus now," he said. "Early signers [customers that undertake conservation prior to 2007] will be included in the 2007-2011 conservation program," in terms of their being granted participation credit in setting HWMs. "Your comments are very important," he added.

Jean Ryckman of Franklin PUD said she echoed what had been said about renewable portfolio standards. She asked, "If there are standards [imposed], what is the point of Bonneville being involved in conservation at all? I would encourage you to think about getting out of conservation."

Barry Bush of Energy Northwest asked whether customers will know their HWM when they sign the contracts. BPA's Mark Gendron replied that HWMs in contracts will be "forecast."

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There being no further comments or questions, the meeting was tabled at 3:45 p.m. BPA staff remained available in the event persons arriving late might wish to testify (there were none).

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

Attendees

BPA Regional Dialogue Public Meeting
Pasco, Wash. – August 7, 2006

1.	Arneson, Steve	Richland
2.	Bertsch, Bob	Benton PUD
3.	Bone-Harris, Debbie	Franklin PUD
4.	Boomer, Linda	Franklin PUD
5.	Bush, Barry	Energy Northwest
6.	Charlo, Mike	Milton-Freewater
7.	Chestnutt, Judy	Alcoa
8.	Clark, Darroll A	Franklin PUD
9.	Crump, Bob	Kootenai Electric
10.	Eldrige, Steve	Umatilla Electric
11.	Espinoza, Richard	Franklin PUD consumer
12.	Faircloth, Ken	H&M
13.	Felton, Larry	Energy Northwest
14.	Flaherty, Pat	Alcoa
15.	Gist, Ru	Energy Northwest
16.	Gregg, Randy	Benton PUD
17.	Henderson, Mike	Conagra Foods
18.	Henley, Vicki	Alcoa
19.	Johnson, Roger	Mercator Group
20.	Keck, Roy	Richland
21.	Kosmata, Hank	Richland Utility Advisory Committee
22.	Krekel, Randall	DOE-Richland
23.	LaBolle, Larry	Avista
24.	McMaster, Don	Franklin PUD
25.	Nelson, Stu	Franklin PUD
26.	O'Meara, Kevin	PPC
27.	Revell, Ed	Richland
28.	Ryckman, Jean	Franklin PUD
29.	Sanders, Lori	Benton PUD
30.	Sieler, Raymon	Richland
31.	Speer, Jack	Alcoa
32.	Aho, Rodney	BPA
33.	Barham, Ted	BPA
34.	Brost, Ed	BPA
35.	Burbank, Nita	BPA
36.	Carlson, Debbie	BPA
37.	Gendron, Mark	BPA
38.	Johnson, Tim, Esq.	BPA
39.	Thompson, Garry	BPA
40.	Wilson, Scott	BPA