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BEFORE THE BONNEVILLE POWER ADMINISTRATION
REGIONAL DIALOGUE PUBLIC MEETING

DECEMBER 6, 2006

1:30 p.m.

Seattle-Tacoma Airport Conference Area

Seattle, Washington

REPORTED BY: ELEANOR MITCHELL, RPR, CCR No. 3006

1 A P P E A R A N C E S

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7 STEPHEN WRIGHT
8 Administrator and CEO
9 Bonneville Power Administration

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11 CLAY SELL
12 Deputy Secretary
13 Department of Energy

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15 DAVID HILL
16 General Counsel
17 Department of Energy

18

19 KEVIN KOLEVAR, DIRECTOR
20 Office of Electricity Delivery & Energy Reliability
21 Department of Energy

22

23

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1 MR. NORMAN: I'm Paul Norman. For those
2 of you who don't know me, I'm head of Power Business
3 Line at Bonneville, or Power Services now.

4 We really appreciate you being here today.
5 And I'd like to recognize that we scheduled this
6 meeting on top of the Washington PUD Association's
7 Annual Meeting, and I really appreciate all of you
8 being here in lieu of your meeting today.

9 Most of you have been working on the Regional
10 Dialogue with us for more years than we care to
11 remember. And the process is one that, as you know, is
12 going to shape Bonneville's power supply in the region
13 for the next 20 years. So we appreciate the
14 collaborative spirit that a lot of you have approached
15 this with, and we're optimistic we're going to get to a
16 conclusion.

17 Today, we're really pleased to have three
18 senior DOE officials here with us. Steve Wright will
19 introduce them individually, but this is really a
20 unique opportunity for you to speak directly to them on
21 your interests and your issues.

22 We do have a court reporter here. Your
23 comments will be recorded and will be posted on our
24 website once they're transcribed. We'd appreciate you,
25 although we know you, please do state your name and

1 affiliation so that can get into the transcript.

2 Most of today is taken up with a series of
3 panels. Each panel member will have five minutes to
4 make some comments. And since our time is limited,
5 Helen is going to meticulously track the time and warn
6 you if you're going over time.

7 At the end of each panel's time, there's time
8 in each panel for the DOE officials to ask questions of
9 panel members. And at the end, there's basically open
10 mike for other folks who want to make comments. If
11 you'd like to do so, we'd like to keep those comments
12 to two minutes apiece.

13 And if you haven't already and you would like
14 to make a comment in that period of time, please do
15 fill out a blue card and hand it in back there so we
16 know who wants to speak. And if you have written
17 comments, you can drop them off back there as well.

18 So any questions or comments about the process
19 this afternoon? Yes?

20 AN AUDIENCE MEMBER: Paul, can we make
21 written comments --

22 MR. NORMAN: Yes. If you have written
23 comments --

24 AN AUDIENCE MEMBER: -- if we have to
25 leave early?

1 MR. NORMAN: That would be fine. And you
2 can leave them right back there on the table if you
3 have written comments.

4 Sorry. Sounds like you may not get to make
5 your comments, and we apologize for that.

6 AN AUDIENCE MEMBER: That's fine.

7 MR. NORMAN: Steve?

8 MR. WRIGHT: Thanks. So I want to say
9 thanks to all the participants. I know we put this
10 meeting together in a relatively short time frame and
11 many moved schedules around, etc., and we appreciate
12 your flexibility in helping us to get this pulled
13 together.

14 Couple of purposes for today's meeting.
15 No. 1, in the past, as we've gone through these
16 different variations of the Regional Dialogue process,
17 we put together a paper, we take it back and visit with
18 our DOE friends and begin to go through that process of
19 describing to them what's going on. And it always
20 turned into a bit more lengthy process than we'd like
21 because we'd have to just kind of start from scratch.

22 And this creates the opportunity for folks
23 that we will be working with in this process to be able
24 to hear it directly from you. So it creates an
25 opportunity to hopefully facilitate the review process.

1 Second, there's always been the issue in the
2 past -- we really haven't had it in the last four or
3 five years, but in the '90s at least, there were issues
4 with respect to whether different constituents get
5 unequal access inside these review processes. So we
6 wanted to make sure that anybody that has a concern or
7 an issue has the opportunity to express it and that
8 everybody else gets to hear it, and this is, in fact,
9 the level playing ground for all of the parties here.

10 I do want to take a second and introduce my
11 DOE colleagues. I want to particularly say thanks to
12 them for coming out. For those of you who don't know,
13 the Administration is in the process of putting
14 together the FY-2008 budget. So it is a very, very
15 busy time. There's also a continuing resolution on the
16 floor of the House and the Senate right now, which is
17 pretty darn important to the Department. So this was
18 not easy for them to get out here. Very appreciative
19 of them taking the time to come out and be here today.

20 First of all, to my right, is Clay Sell, who's
21 the Department Secretary, has been for the last
22 two years. I'm sure he'll have a few comments to get
23 us started here as well, but I want to tell you a
24 little bit that I know about Clay.

25 I've had the opportunity to work with him

1 closely for the last couple of years, and it has been
2 terrific. And some of you know that our first
3 introduction to Clay was early on where there was a
4 very significant issue having to do with the potential
5 for processing uranium tails and the opportunity to be
6 able to reduce costs for Energy Northwest.

7 We were ultimately successful in getting that
8 approved. It had to be approved by the Department and
9 it had to be approved by Clay. And it's -- at the time
10 we put it together, we thought it would be worth about
11 50 to 80 million dollars, and it's probably more than
12 double that today because uranium prices have continued
13 to rise since then.

14 Clay had to take some heat in the Senate in
15 order to put that in place. And I have to tell you
16 that I was very appreciative of the work that got done
17 there, because it helped us significantly in getting to
18 the rates which you have all been so appreciative of in
19 the last few months that we put in place for '07-'09.

20 David Hill, to my left, is general counsel for
21 the Department. He was the assistant general counsel
22 when he first came into the Department, and we started
23 working with him some five years ago. He has been
24 terrific in terms of understanding that Bonneville
25 operates as a business, and probably no one inside the

1 Administration has spent more time thinking about this
2 particular issue, the question of long-term contracts?
3 And how does it make sense in terms of a business
4 transaction? And moreover, how does it fit in terms of
5 the national policy objectives we have for developing
6 infrastructure for the country?

7 Kevin Kolevar, to the far right, has also been
8 with the Department for the last five years, was chief
9 of staff to the former secretary. He has now been
10 nominated to be an assistant secretary, and his
11 confirmation is pending before the Senate.

12 Kevin has been particularly helpful in terms
13 of helping us understand and work through the
14 implementation of the Energy Policy Act and
15 opportunities for us to be able to find ways to be able
16 to work together to take advantage of the Energy Policy
17 Act.

18 So these are folks that have been involved in
19 these issues and certainly aware of them for a long
20 time. And what we're hoping today is that they'll be
21 able to walk out of here with a better understanding of
22 each of your perspectives and then that will help us
23 ultimately lead to a conclusion and record of decision.

24 With that, Clay, I think I'd like to turn it
25 over to you for any opening comments that you may have.

1 MR. SELL: Thank you, Steve.

2 It's a real pleasure for me to be here. And,
3 in fact, it was just absolutely glorious flying into
4 Seattle today with the sunshine and seeing the
5 beautiful mountains and being reminded of the
6 tremendous natural resources which are resident in the
7 Pacific Northwest.

8 This process that you've been engaged in, this
9 long-term Regional Dialogue to set the course for the
10 next 20 years, I know it's been an effort that you've
11 been after for a number of years. It's very important.
12 And that's why I wanted to come out here and hear
13 directly from each of you rather than hearing serially
14 from some of you in Washington.

15 The long-term certainty that will be provided
16 through these long-term contracts and the investments
17 that that long-term certainty will draw in the Pacific
18 Northwest, I think, is very important. And I'm anxious
19 to see Bonneville make the decisions that will get this
20 thing going forward.

21 Now, the nature of the way decisions are made
22 out here is somewhat unique. And the consensus
23 building and sustainability of the decisions that are
24 made out here are important. And I think the decisions
25 should and will be uniquely kind of decided out here by

1 the residents and citizens of the Pacific Northwest.
2 But they will be shaped by the policies and politics of
3 Washington. And that is why I'm here.

4 I will tell you that I have tremendous
5 confidence in the leadership team at Bonneville and in
6 Steve Wright in particular. And we have -- we began a
7 relationship two years ago where he committed to
8 keeping me properly informed and properly briefed, and
9 we would talk and meet regularly. And I agreed to back
10 him completely in his decisions. And it's a
11 relationship that has worked well, and it's a
12 relationship that will continue.

13 And so part of being empowered or part of my
14 effort to empower Steve and support him is ensuring
15 that I'm properly apprised of the issues and understand
16 all of the intricacies of the competing regional
17 interests to the extent I can. And that's why I wanted
18 to take this trip out here today to spend four and a
19 half hours with you: To better understand the issues
20 so that we can provide the backing to Bonneville and,
21 if need be, take the political heat for doing the right
22 thing out here.

23 So I look forward to the discussions. I look
24 forward to the comments, and I'll let you have at it.

25 MR. WRIGHT: With that, I think we're

1 ready for our first panel.

2 MR. NORMAN: We're going to start with the
3 Public Power Panel. I apologize to the panel members:
4 I'm not going to recite your extensive list of
5 credentials.

6 MR. SELL: We've read them.

7 MR. NORMAN: We've provided them to the
8 DOE officials, and I'm sure they've studied them
9 intently, so I'm going to let you describe your
10 affiliation. And we're going to start with Marilyn
11 Showalter.

12 MS. SHOWALTER: Is this on?

13 I'm Marilyn Showalter. I'm the executive
14 director of the Public Power Council and our members
15 are the public utilities in and for northwest states
16 primarily. And we represent the interests of the
17 people who are going to have the sign on the dotted
18 line these 20-year contracts, if we get there, and I
19 hope we do. A number of them who are sitting in the
20 room here to express their strong interest in these
21 very complex undertaking.

22 Mr. Sell, you mentioned the certainty that can
23 bring about investment as a result of long-term
24 contracts, and I think that is a genuine goal of the
25 process. I think that kind of certainty would be good

1 for the federal government and its taxpayers as well as
2 good for the Northwest.

3 This term "certainty" has been used and it's a
4 real one. I think the federal government actually gets
5 some kind of certainty by our signing up. We have been
6 here since the early part of the century, the last
7 century. Many of our members of the Public Power
8 Council have been here 40 years. We are ready to back
9 the system.

10 But on the other side of the equation, the
11 certainty just isn't as certain and it can't be.
12 Literally, we are signing a blank check because the
13 amount that we are going to be obligated to pay cannot
14 be determined today. So we sign up to take the power,
15 and it will be Bonneville who decides what rates we
16 pay.

17 Now, they're cost-based, and that's what we
18 get. We get 20 years of cost-based power. But what is
19 cost? And that's where all the complication entails.
20 The costs are the costs of the hydro system. It's the
21 cost of the environmental responsibilities. It's the
22 cost to satisfy investor-owned utility customer
23 benefits, costs to satisfy -- I would put it as demands
24 of direct-service industries, and I think I'll throw
25 the President's budget issue in there as well.

1 Some of these costs are required by law and
2 some are not. But they're all being negotiated at this
3 time.

4 So from our point of view, what we need to do
5 because we can't pin these costs down absolutely, but
6 we can try to hem in the parameters of how these
7 different issues play out. So that I wouldn't say
8 "certainty," I think we'd have more predictability.

9 What we need to look at is our exposure and
10 our risk so that when the elected officials of the 112
11 or so public power utilities vote to sign that 20-year
12 contract, they have some sense of what their exposure
13 and risk is.

14 So this, then, plays out in all of those
15 different areas that I mentioned, and you'll hear about
16 all of them. When you look at this table here and my
17 members, we're the ones who have to pay our -- and our
18 customers for all of those demands.

19 Lost my train of thought for just a second.
20 Oh, I'll take the President's budget as an example.

21 MR. SELL: I thought I might hear about
22 that.

23 MS. SHOWALTER: It says, Well, in good
24 years, we're going to do something with these secondary
25 revenues. And we have had a fair amount of

1 conversation at Steve Wright's request on this subject.

2 Very interesting, but what -- you know, in a word, what

3 it boils down to is, Well, those are the good years;

4 what about the bad years?

5 As good as this year was -- and it was a good

6 year -- it follows six really bad years. That's the

7 nature of water and weather. And our regular rates

8 take that into account. So to carve out something in

9 the good years then doesn't get to offset the bad years

10 is a disruption of the regular way we do things.

11 Even deeper though, and this is true not only

12 in the President's budget but every other issue I

13 talked about, is, How do we ensure the enforceability

14 of some kind of provision? We're signing up for

15 20 years. So if there was such a provision that said

16 in X circumstance, Y will happen, how do we know that

17 that's enforceable through the whole 20 years?

18 And this is true, this kind of

19 unpredictability, is true, let's say, of the IOU

20 benefits. To the extent they're predictable and

21 stable, we know what they're going to be. To the

22 extent that there's a wide range of possibilities,

23 that's risk and that's exposure.

24 So those are the kinds of things that we have

25 to work through. It's very complex. And I think we --

1 we and everybody in this room -- has done a yeoman's
2 job of trying to work through it. And I hope we get
3 there. But it does -- it does take time.

4 And at some point, I also think, you know,
5 everybody's got a line that they can't go beyond. And
6 what I mean by that is, every single individual utility
7 will have to make a decision in the end. And what we
8 want is to set it up so that it looks like a very good
9 partnership -- because I think it is a partnership
10 between the federal government and all the local
11 governments that we represent -- to make the whole
12 system work for the Northwest which benefits you and
13 benefits us and benefits all the citizenry in the
14 Northwest. Thank you.

15 MR. NORMAN: Thanks, Marilyn. John?

16 MR. SAVEN: I'm John Saven. I'm the chief
17 executive officer of Northwest Requirements Utilities
18 which a nonprofit trade association. We have
19 Bonneville customers in seven states. We represent
20 about 1700 average megawatts of the Bonneville system
21 in terms of who Bonneville sells its public power.

22 And the first thing I want to say is you
23 should assign no particular value to the fact that Paul
24 Norman is sitting at the IOU table over there.

25 As I said, I'm a representative of

1 full-requirement customers. And by that I mean that
2 Bonneville takes care of the retail load swings of the
3 NRU members, and Bonneville is our exclusive supplier
4 of energy other than in situations where some of our
5 members may have some generation that they own to serve
6 load.

7 I'd like to start by commending Steve Wright
8 and his staff for the Regional Dialogue process,
9 particularly the fact that they issued a concept paper
10 initially last September. You know, they'd come out
11 with their policy proposal in July. They're continuing
12 to have technical work sessions with our employees and
13 all the customer groups. And I think that has really
14 been healthy for everyone.

15 And I know they keep you, Clay, and others
16 apprised of what's going on in D.C., but for purposes
17 of the conduct of a regional process, even though the
18 issues are very complicated and people have got tough
19 positions, we're at least trying in a fashion that
20 might get us to closure. So I'd like to commend the
21 Agency for that.

22 Now, we submitted extensive comments to
23 Bonneville almost half as long as the Bonneville
24 document. And many of the topics that were in there
25 are perhaps germane to full-requirement customers. And

1 in your role in Washington, D.C., you probably don't
2 focus on things like irrigation mitigation and the low
3 density discounts and general transfer agreements. And
4 so, although those are kind of key to the life blood of
5 the folks that I work with, I really don't want to talk
6 about those today. I'm going to focus on the big
7 picture issues that are associated with this Regional
8 Dialogue proposal.

9 And the reason I want to do this is that our
10 members have a long history of cost-based service from
11 Bonneville that is basically founded in the Regional
12 Act and in the Bonneville Project Act. We had 20-year
13 contracts from 1981 through 2001. We have subscription
14 contracts that are going on for 10 years, and the
15 expectation is that we want a long-term business
16 relationship with Bonneville.

17 This model works very well for us. We think
18 it works well for the Agency. But it also works well
19 for the U.S. Treasury in terms of the dependability of
20 Bonneville making its treasury payments.

21 So what are some of the key features of this
22 business relationship and where Bonneville is headed in
23 the future? One thing is I think Bonneville has
24 recognized that there might be a need to make some
25 fine-tuning to what this relationship is.

1 And so in Bonneville's proposal, there is a
2 limitation on the Agency's obligation to serve load
3 growth on a rolled-in cost basis, and this is
4 accomplished contractually through high-water marks and
5 tiered rates and there's a whole lot of details that
6 are associated with that. But, essentially, each
7 utility would have a pretty good sense of what it might
8 get in the future on a cost basis from Bonneville.

9 And then there's an opportunity for utilities
10 to make a decision as to whether or not they want to
11 stay with Bonneville for additional load growth, which
12 Bonneville would go out and procure at a different cost
13 or develop such resources on their own. We expect that
14 the federal system will be fully subscribed in 2012 by
15 public power, which basically means benefits for the
16 investor-owned utilities, residential and small farm
17 customers, and for the DSIs. And these will be
18 financial in nature.

19 And we think that this type of approach
20 provides certainty for purposes of Bonneville being
21 able to make its treasury payments compared to some of
22 the market risks that the Agency has faced in the past.

23 This needs to be implemented through long-term
24 contracts as well as rate design. And that is going to
25 be a fairly difficult task, but we're involved in it.

1 We support this approach with the notion that it can be
2 administered or it can put into place administratively.
3 We're not a proponent of federal legislation. But for
4 Bonneville to do this, it basically means that it needs
5 to recognize the statutory rights that its customers
6 have and to basically work with us constructively to
7 get the job done.

8 I'm going to talk about public power. I don't
9 intend to dwell on service to other customer groups
10 including the IOUs and the DSIs, but I just make the
11 following summary comments.

12 NRU does not believe that there should be a
13 physical delivery of power to the DSIs post-2011 and
14 that the current financial cap of \$59 million should be
15 maintained.

16 We believe that the benefits for the IOU,
17 residential and small farm customers post-2011 need to
18 be financial only, that the current benefit levels in
19 our estimation are too high and, as a result of that
20 and the methodology in the current contracts, there is
21 a litigation in the Ninth Circuit court.

22 Having said that, we spent the last few months
23 negotiating with the IOUs and with Bonneville's
24 assistance to see if there is a methodology that can be
25 developed post-2011. And I'm sure you're all aware of

1 the Bonneville proposal. It has a figure of
2 \$250 million as a starting point post-2011.

3 Unfortunately, at this point in time, the
4 negotiations have not come to a successful conclusion.
5 But having said that, I believe it's incumbent on all
6 of us to continue to try because I, at least
7 individually, am a proponent of working out our
8 differences and trying to do that in the region rather
9 than having a third-party such as the courts or
10 Congress or anyone else try to make a decision.

11 So as federal officials, I'm sure you're
12 interested in the issue of Bonneville's treasury
13 payments. Marilyn's already touched on this issue and
14 the question of the President's budget proposal. We've
15 asked Bonneville some pretty hard questions about that,
16 and they've given us good information back. Some of
17 our interests include the ability to make available to
18 us previously paid amounts of money in the -- that's
19 from the good years in the event that we ran into some
20 bad years. We're going to be looking for enforcement
21 mechanisms to make sure we don't get on some type of a
22 slippery slope where a deal is not a deal. And we need
23 to make sure there's an effective mechanism to put that
24 in place.

25 And, finally, I have an interest in making

1 sure, if any additional funds are available for
2 Bonneville, that they stay in the Northwest and are
3 used for infrastructure improvements because we
4 desperately need those.

5 So we're in discussions, and Steve's asked us
6 to have those discussions and we continue to do so.

7 The --

8 MR. NORMAN: John, I apologize. But
9 just -- you're at nine minutes so I just want to point
10 that out.

11 MR. SAVEN: So I want to talk about Tier I
12 and Tier II resources and the issue of Bonneville
13 customers being available for a load-following product
14 is real key to our interests. Many other topics I
15 could go into, but out of deference to the other panel
16 members, I'll stop at this point in time.

17 MR. NORMAN: Thanks a lot.

18 MR. SELL: I do want to say: It is
19 certainly not my view of the President's proposal as
20 related to secondary revenues that it was ever
21 conceived that those revenues would leave the Pacific
22 Northwest. I mean, they would go to pay down debt.
23 But that would be debt -- borrowing authority that
24 still is available. And so can you help me understand
25 your concern, if I misunderstand it.

1 MR. SAVEN: My concern is that assurance.

2 I mean, you've said that to me and I, in good faith,
3 believe that. But I think about where we may be
4 10 years from now when there's a different person in my
5 chair and there's a different person in your chair, and
6 the assurance that that, in fact, will be the future
7 business relationship given, perhaps, different
8 financial circumstances that the country faces, etc.

9 MR. NORMAN: Thanks. Jorge?

10 MR. CARRASCO: My name is Jorge Carrasco,
11 and I'm the superintendent of Seattle City Light. I'd
12 like to welcome Mr. Secretary and members of your staff
13 to Seattle. And I'd like to begin by echoing some of
14 the comments that were made earlier about the Regional
15 Dialogue process.

16 I personally think it's been a very
17 comprehensive and a very transparent process, very
18 inclusive process. And I commend Steve Wright and
19 members of his staff for making this process available
20 to everyone in our region.

21 I have six key points I want to make, and I'll
22 go through them fairly quickly. Before I get into
23 them, let me just say that Seattle City Light serves
24 the corporate limits of Seattle as well as five other
25 communities, both north and south of our service area.

1 We have power resources of our own which are
2 complimented by resources from Bonneville which are
3 very important to our region. About 40 percent of our
4 power comes from the Bonneville Power Administration.

5 And I will tell you, for one, having lived and
6 worked in other parts of the country, that the
7 federal-based system is one of the most valuable
8 resources I think this region has. And we're very
9 appreciative and grateful to have this resource
10 available to our region.

11 First of all, let me just make a few comments
12 on the allocation process. We support the allocation
13 of the federal-based system, and we support the idea of
14 the two-tiered rate. We think that is an appropriate
15 course to take for the future. We also think that it
16 sends the right cost and market signals to all of us
17 that operate in this energy market.

18 That said, we think the allocation of that
19 system needs to be fair and equitable. And to that
20 effect, we want to make sure that any resources that
21 are reflected in our portfolio are, in fact, resources
22 that we have access to. And I think if that's done,
23 that will help the allocation process, not just for
24 City Light but for other utilities that might have a
25 similar concern.

1 We believe that, if you're creating two-tiered
2 rates, there ought to be a bright line dividing the two
3 and that that line ought to be enduring.

4 This is a 20-year process, and we're hoping
5 that if that two-tiered rate structure is going to
6 operate effectively, we should not mix the two.

7 We also support BPA's efforts to allow
8 utilities to consider other products that might help
9 them meet their requirements as a plan for future
10 growth.

11 The second point I'd like to make relates to
12 conservation. The Bonneville Power Administration has
13 been a true regional leader in the area of
14 conservation, and we hope that that will continue in
15 the next 20 years. Conservation, in our opinion, is
16 the first and likely the primary source that utilities
17 should rely on to meet their energy needs.

18 That said, conservation efforts
19 should -- efforts on behalf of the utilities should not
20 reduce the amount of power that is allocated out of the
21 federal-based system. So if you conserve, you should
22 not be penalized by having the amount of power you can
23 buy from Bonneville reduced.

24 We think utilities that have been leaders in
25 the conservation effort, particularly since 2002,

1 should be recognized for having taken a leadership role
2 and not be penalized for that. And going forward, we
3 believe that utilities that continue to make future
4 conservation a part of their program should be rewarded
5 for doing that and encouraged to do that. The more we
6 conserve, the more resources available for the entire
7 region.

8 In the area of renewables, I would like to
9 stress the importance of the role that both Bonneville
10 and the Department of Energy could play in promoting
11 research into renewable power. BPA has taken a
12 leadership role in trying to help the region understand
13 how best to integrate renewables. This becomes
14 particularly important in Washington State because of a
15 new renewable standard requirement that has just been
16 passed.

17 The work that BPA is doing right now is
18 instrumental in helping the whole region deal with the
19 integration of renewables which becomes a significant
20 challenge for us going forward.

21 But beyond that general subject, let me just
22 say that there's been a lot of conversation in the
23 region about winds as a renewable resource. And we
24 think that's appropriate and good, but there are other
25 renewables that are available to the region.

1 Geothermal, for one, is a renewable that we
2 believe has great opportunity here in Washington State,
3 and we'd like to see more work done in order to
4 evaluate the availability of that renewable since,
5 unlike wind, that particular renewable can be used to
6 provide base load requirements for utility systems.

7 We also believe that bio fuels are a promising
8 home-grown source of power. And looking further down
9 the horizon, there's some of us that are beginning to
10 look at wave and tidal power, and that, too, can play a
11 role going forward.

12 So anything that can be done to try to
13 evaluate the potential of renewables, I think, would be
14 a welcome addition to our plans for the future.

15 MR. NORMAN: Jorge, you're at
16 five minutes.

17 MR. CARRASCO: So a quick comment on
18 slice, and I'm making these comments on behalf of not
19 just City Light but on behalf of about 11 other
20 utilities that are taking part in the Bonneville Power
21 Administration. This is an excellent product that
22 Bonneville has played a critical role in making
23 available to the region. It spreads risk. It'll help
24 utilities going forward manage their load growth. And
25 it will also help ensure that renewables can be

1 integrated by utilities going forward.

2 So I'd like to encourage the Agency to
3 consider continuing that product, preferably unchanged.
4 But if changes are needed, then we ought to factor in
5 any reductions and flexibility to reductions in cost of
6 that product.

7 Residential exchange, I'll only mention that
8 we support the need for a solution. We think that
9 solution ought to come locally, and I prefer to see
10 that happen by working together in the local community
11 rather than relying on outside sources to make the
12 decision for us.

13 And I'd like to close by just making a point
14 regarding transmission. All the work that we're doing
15 on ensuring reliable power for the future will not work
16 unless we do something about the transmission system.
17 The system is congested.

18 Recently, the Department of Energy has
19 correctly identified the Seattle/Portland area as a
20 congestion area of concern. We believe that was the
21 right thing to do. And beyond that, I would add that
22 if you look at load projections over the next 10 to
23 20 years, you'll find that that corridor of congestion
24 will extend all the way to Vancouver.

25 And we believe that the work that Columbia

1 Grid is doing right now will do a lot to help expansion
2 and planning going forward, and we'd like to encourage
3 you, as part of this package, to factor in transmission
4 planning as an important consideration.

5 Thank you very much for giving us the
6 opportunity to provide this input.

7 MR. SELL: Thank you.

8 MR. NORMAN: Thanks a lot. Bill?

9 MR. DRUMMOND: Good afternoon. My name is
10 Bill Drummond. I'm the manager of Western Montana
11 Generating & Transmission Cooperative. We have seven
12 utilities that are members of Western Montana G&T.
13 They serve about a hundred thousand consumer members in
14 Western Montana. And they are, for the most part --
15 actually, they're all Bonneville full-requirement
16 customers.

17 Three messages for you. First, the members of
18 Western Montana G&T support the Regional Dialogue
19 efforts and believe that Bonneville has done an
20 excellent job to date of incorporating public comments.
21 We believe that allocating the cost and benefits of the
22 federal-based system along with the tiering of rates is
23 the best way to preserve the benefits of the regional
24 system for the people of the Northwest. We believe
25 it's also a good deal for the taxpayers through

1 long-term take-or-pay contracts.

2 Secondly, my members are willing to sign
3 long-term take-or-pay contracts with Bonneville if it
4 makes business sense and if we believe it is both
5 sustainable and durable over time.

6 Third, this is complicated stuff. There's
7 lots of money on the table, but I was very, very
8 heartened, Mr. Sell, by your opening comments that you
9 would indeed allow us to work it out here. There are
10 an incredible number of details. We're talking about
11 significant changes. It's going to require agreement
12 among a huge number of parties and a Congressional
13 delegation. It's a big challenge, but we feel it's
14 best done through dialogue, negotiation, and compromise
15 here in the region.

16 Additionally, we do "process" really well out
17 here. If there's one thing we do, it's process.

18 Some historic perspective: When I started in
19 this business about 25 years ago, the region was just
20 trying to assimilate the impact of the recently passed
21 Northwest Power Planning and Conservation Act. The
22 previous resource acquisition vision had been one of
23 basically building a coal plant and/or numerous nuclear
24 plants about every year. The Northwest Power
25 Planning -- the Power Act; I'll just shorten it for

1 you -- focused the region's attention on efficiency,
2 renewable energy, and on regional planning. It allowed
3 access or provided an opportunity for the governors to
4 have a much greater impact on Bonneville's policies and
5 decisions.

6 Most importantly for us today, however, the
7 Act has a vision of resource acquisition that flows
8 through Bonneville. The nexus of this resource
9 acquisition under the Power Act is through BPA. While
10 some elements of the Power Act have worked well, I'd
11 argue that the resource acquisition paradigm in the
12 Power Act hasn't worked quite as well.

13 For example, public power dropped 3,000
14 megawatts of unexpected load on Bonneville in 2000.
15 The Agency was forced to dive into a superheated market
16 and ended up having to -- having to have a 50 percent
17 rate increase as a result. The residential exchange
18 benefits have been volatile, political, and subject to
19 considerable Agency interpretation. Bonneville's had
20 limited success at resource acquisition -- long-term
21 resource acquisition for a variety of reasons.

22 And because of these things, and this was
23 really even before the West Coast energy crisis, a
24 group of folks recognized about 10 years ago that a new
25 structure was going to be necessary, and it's really

1 honestly taken us this long to begin to develop the
2 details of this new structure.

3 Let me turn to the Regional Dialogue itself.
4 In essence, we're proposing to move in a structure
5 similar to that of the other power marketing
6 administrations, allocate the benefits and costs of
7 Bonneville's existing resources, and then let the
8 utilities decide if they want Bonneville to do the
9 resource acquisition for them or whether the utilities
10 do it themselves.

11 If the utilities rely on Bonneville, they pay
12 the actual cost of Bonneville's resource acquisition.
13 If the utilities want to make their own resource
14 acquisitions, they pay only the cost of Bonneville's
15 Tier I purchases. The point is: We're, in essence,
16 proposing to join the rest of the PMA customers around
17 the United States.

18 Now much remains to be accomplished. We have
19 to complete a complicated set of negotiations and
20 policy decisions in a very short period of time. For
21 example, four large processes are scheduled for next
22 year, including negotiating contract language and
23 developing tiered rates. We have to figure out what it
24 is that's actually being allocated, particularly with
25 respect to system flexibility. We've got to get

1 greater clarity and coordination on transmission
2 issues, particularly on how our existing transmission
3 contracts are going to work in the context of this new
4 resource acquisition structure.

5 And then we have to develop some Tier II
6 products -- federal Tier II projects. And for those of
7 us that are on the utility side, we'll be examining
8 both Bonneville's Tier II alternatives and nonfederal
9 Tier II alternatives.

10 MR. NORMAN: One minute, Bill.

11 MR. DRUMMOND: Okay. Thank you.

12 Well, let me conclude with this: One of my
13 older board members who's a rancher in Central Montana
14 told me, When you wean a calf from a cow, there's a lot
15 of bawling on both sides of the fence. And you'll
16 probably hear some bawling later this afternoon. I've
17 done some myself. No question about it.

18 Public power is essentially weaning itself
19 from Bonneville as the sole source for resource
20 acquisition. We're moving the responsibility for those
21 decisions back to the public utilities. We can still
22 rely on Bonneville if we want, but it will be a
23 conscious decision and we'll pay Bonneville for the
24 cost of that decision.

25 It's not easy. There's a lot of details to

1 get resolved and there's a lot of money on the table.
2 And we are, as I mentioned, talking about significant
3 changes. But we believe we're making progress toward a
4 business relationship that will benefit both the
5 Northwest ratepayers and the federal government. Thank
6 you.

7 MR. NORMAN: Thanks, Bill. Melinda?

8 MS. DAVISON: Thank you.

9 Good afternoon. My name is Melinda Davison,
10 and I'm here on behalf the Industrial Customers of
11 Northwest Utilities, known as ICNU.

12 ICNU is a nonprofit trade association that
13 represents the interests of over 30 industrial
14 customers in the Northwest on energy matters. We have
15 19 members who take BPA power through their local
16 utilities. Some of our members include -- just to give
17 you a sense of who we are -- Weyerhaeuser, Georgia
18 Pacific, Boise Cascade, Longview Fiber,
19 Kimberley-Clark, Grays Harbor Paper, Boeing, Hewlett
20 Packard, ConAgra Foods, J.R. Simplot. A pretty broad
21 variety of large-demand consumer customers.

22 Before I get into my remarks, I do want to
23 step back and echo the comments that you've heard from
24 this panel; that is, we appreciate the ability to be
25 here and to make comments to you. We appreciate the

1 collaborative nature that Steve Wright and Paul Norman
2 have exhibited throughout this process. And there'll
3 be some points that I will talk about that we haven't
4 agreed with, but I think there's lots of things that we
5 have, as a region, come together on. So I don't want
6 to take away from that. But given the time
7 constraints, I'm going to focus on the couple of things
8 that we do want to bring to your attention.

9 ICNU's members represent 14 percent of BPA's
10 total preference customer load. ICNU's members have
11 over 15,000 employees and those are employees just at
12 the Bonneville-served facilities.

13 The issues that you are considering in this
14 process are extremely important to our members. And
15 they figure into the economic viability of some of
16 these facilities here in the Northwest.

17 Like the other panel members, we've provided
18 very detailed comments. What we want to focus on are
19 two issues. BPA post-2011 does not have enough power
20 to meet all of its statutory obligations. BPA should
21 not exercise its discretion and voluntarily provide
22 power or money to the DSIs in this time frame. That is
23 a group that is no longer statutorily entitled to power
24 or a subsidy in the form of money.

25 Our second point is that customer-owned

1 generation should not count when BPA establishes the
2 high-water mark. And that is the maximum amount of
3 power that BPA must provide to each preference customer
4 at its cost-based rates.

5 BPA's current contracts provide over
6 \$59 million in subsidies to the DSIs per year. This
7 increases preference customers' rates by approximately
8 \$1 per megawatt-hour. This \$59 million allows the DSIs
9 to buy down their market price for power in the range
10 of 12 to 24 dollars per megawatt-hour, depending on how
11 they package their deals.

12 Under the regional act, the DSI rate or the
13 industrial rate is \$42.2 per megawatt-hour. Thus,
14 after the subsidy to the DSIs, the DSIs have the
15 ability to secure power well below their statutory
16 rate.

17 Post-2011, the DSIs are asking for 560
18 megawatts of cost-based power. Using a very
19 conservative market price for power, this translates
20 into over \$71,000 per DSI employee for a subsidy.
21 Essentially, the region's being asked to provide free
22 labor to the DSIs.

23 BPA's rationale for continuing this subsidy is
24 to preserve these jobs. But at what cost? You may be
25 sacrificing very important pulp and paper jobs or

1 forest product job in order to preserve the rapidly
2 shrinking number of aluminum jobs. We think that it is
3 extremely problematic for our industry to subsidize
4 Alcoa, one of the most profitable companies in the
5 world.

6 Another thing: Port Townsend Paper, which is
7 a DSI that is a nonaluminum DSI who is in line to
8 receive a special power deal from BPA, observes that it
9 is a direct competitor with Weyerhaeuser, Longview
10 Fiber, and Georgia Pacific. Those are three key
11 members of ours.

12 Under BPA's proposal, Port Townsend Paper will
13 receive cheaper power than Weyerhaeuser, Longview
14 Fiber, and Georgia Pacific will receive. We don't
15 believe that that is right. We do not believe that
16 these competitors -- that any of these competitors
17 should be placed in a better competitive position as a
18 result of getting cheaper Bonneville power.

19 MR. NORMAN: One more minute, Melinda.

20 MS. DAVISON: By definition, customers are
21 preference customers who do not pay more for power than
22 a customer who has a statutory obligation to receive
23 this power.

24 Finally, the last point we'd like to make is
25 that BPA should not establish a high-water mark that

1 unfairly punishes customers who have cogeneration. PPC
2 made a proposal on this. We support that proposal and
3 we think that's the right thing to do and we think
4 that's a good competitive position.

5 We appreciate the opportunity to be here this
6 afternoon and present our comments. Thank you.

7 MR. NORMAN: Sorry to rush you all. We've
8 got a few minutes here for Q&A.

9 MR. HILL: I've got one, Paul.

10 Marilyn, you were noting the concern about the
11 enforceability of contract provisions and
12 predictability uncertainty. You noted the issue but
13 you didn't say what ought to be done about it. And my
14 question is: What ought to be -- I understand the
15 concern. What ought to be done about it in this
16 situation?

17 MS. SHOWALTER: Well, I guess, the first
18 thing is -- well, which situation? So I think, in some
19 instances, there's nothing that can be done about it.
20 And to answer Secretary Sell's question of earlier, the
21 question we have is, If there is any use of secondary
22 sales at all on some kind of threshold, is it
23 possible -- this is a legal question for the lawyers --
24 but is it possible to write a contract that's an
25 enforceable contract such that that line can never be

1 changed?

2 Or maybe 10 years from now, someone decides to
3 lower that threshold further, or maybe 10 years from
4 now, somebody reduces the ceiling on borrowing
5 authority. So the threshold dropped but so did the
6 ceiling.

7 Those are the kinds of things that could
8 change the terms of a contract unless it can be bound
9 up in a contract. People think of the word "contract"
10 as if everything's sewn up and enforceable. But when
11 you're dealing with the federal government, some things
12 are, some things aren't. We keep pushing Bonneville
13 and their lawyers to try as hard as they can to find
14 the ways that are most enforceable.

15 Another part of enforceability is, Well, what
16 about just the contracts that we have for a slice or
17 partial requirements, full requirements? Supposing
18 there were disputes? Let's say there's an argument
19 about what are Tier I costs and what are Tier II costs?
20 That's very important. How do you enforce that line
21 that has been drawn in the contract? And that might be
22 a set of dispute resolution procedures.

23 So it's -- in the end, there isn't going to be
24 any absolute enforceability; at least on a number of
25 things, there aren't. But there can be procedures or

1 promises or, you know, sort of set amounts -- various
2 ways to give the public power customers, I would say,
3 not so much absolute certainty as more confidence and
4 lower risk and less volatility and lower costs. So it
5 is a matter of degree.

6 But I think that -- you know, I'm not saying a
7 contract is worth nothing. I think a contract can be
8 worth quite a bit. It all depends on what the words
9 are and how far --

10 MR. NORMAN: We agree with that.

11 MS. SHOWALTER: -- the federal government
12 can go to guarantee the various provisions today to
13 make sure we know what they are 20 years from now.

14 MR. HILL: I've got another one. And I'm
15 sorry.

16 Mr. Carrasco, you said that you want to have a
17 bright line between the two tiers and no mixing of the
18 two, a concept that I think is a very good one or I
19 completely agree with you, frankly. But what is
20 there -- do you see things in the proposal that
21 Bonneville has put out there that threaten that? And
22 if so, what are they?

23 MR. CARRASCO: I don't recall seeing anything
24 in the proposal that would threaten that. My point in
25 making that point is that we're talking about a 20-year

1 period of time. And to the extent that we create this,
2 what I refer to as a "bright line," we'd like to make
3 sure that whatever resource decisions are made that
4 fall in the Tier II arena that those are, in fact, kept
5 in Tier II and that we're clear on what costs are going
6 to be allocated from day one to Tier I versus Tier II.

7 The worst thing that could happen is, 10 years
8 out, have a lot of pressure from people that have to
9 make resource additions from Tier II when costs are
10 increasing in the Tier II side wanting to have those
11 costs melded with the Tier I costs. I think that would
12 break down the system. And I think that would be
13 contrary to what we're trying to accomplish.

14 MR. SHOWALTER: Can I add to that?

15 Cost allocation is really a difficult subject
16 because there's no right or wrong answer. I'm a former
17 regulator in an investor-owned utility for the State of
18 Washington. And whether it's telecommunications or
19 electricity, you get into the problem of, How do you
20 allocate costs for some new program or new utility to
21 be shared equally on a pro rata basis on, say,
22 administrative costs or some other cost? Or should it
23 be marginal? And classic examples are, with telephone
24 service, it costs practically nothing to give you
25 voicemail but yet you charge \$7.

1 So those sorts of things are not a matter of
2 right or wrong, but they should be a matter of
3 predictability. So they should be worked out in
4 advance and then we'll know if it's a pro rata average
5 or marginal. And then we can make our decision.

6 MR. HILL: I have no other questions.

7 MR. WRIGHT: Actually, I have one. I was
8 reading the comments, and I've been meaning to ask our
9 staff.

10 The issue of customer-owned generation is
11 really a question for both Melinda and Marilyn. If
12 customer-owned generation doesn't count, then it will
13 mean that the load that Bonneville would need to serve
14 in Tier I would be higher. And I'm just unclear on how
15 much customer-owned generation there is out there, and
16 consequently -- you know, we've been thinking that we
17 were mostly sold out anyway and maybe even had to add
18 300 megawatts.

19 What's your estimate of how much
20 customer-owned generation we're talking about and how
21 would that change our load resources?

22 MS. DAVISON: I don't have a number,
23 but -- and I hate to throw something out that isn't
24 accurate. But I think that's an excellent question,
25 and I'd be happy to supplement the record or send you a

1 letter that could be available for everyone to see. I
2 think it would be good for us to research that.

3 MR. WRIGHT: That'd be great.

4 AN AUDIENCE PARTICIPANT: Ballpark, I
5 believe it's around 100 megawatts, maybe less.

6 MR. WRIGHT: That sounds low.

7 MS. DAVISON: It's more than that. That's
8 why I didn't want to throw out a number.

9 MR. WRIGHT: If you would send us a
10 letter, that'd be great.

11 MS. DAVISON: I will do that.

12 MR. WRIGHT: And if you could identify the
13 resources.

14 MS. DAVISON: Yes, I will do that.

15 MR. NORMAN: Thank you all very much.

16 And, again, I apologize for cutting you off. We just
17 need to be fair to everyone. And so I'd like to
18 dismiss this panel and ask you, Jack and Jim, to occupy
19 this table while we turn to the IOU panel.

20 Our next panel's lead-off batter is Kimberly
21 Harris.

22 MS. HARRIS: Good afternoon. My name is
23 Kimberly Harris, and I'm senior vice president of
24 regulatory policy and energy efficiency for Puget Sound
25 Energy. I guess we want to echo and say thank you to

1 Mr. Sell, Mr. Hill, and Mr. Kolevar for traveling out
2 here to glorious Seattle and to sit in a windowless
3 room. But we're here to address a matter of
4 significant importance to the region and to Bonneville.

5 This panel here today, Jim, Kelly, and I are
6 representing the six investor-owned utilities in the
7 region, which includes Avista, Idaho Power,
8 Northwestern Energy, PacifiCorp, Portland General
9 Electric, and Puget Sound Energy.

10 To start, we also would like to echo the
11 comments of our compatriots at the other table and
12 commend BPA, especially, Steve Wright, Paul Norman,
13 Allen Burns, and Mark Gendron, and their staffs for the
14 efforts in trying to achieve a comprehensive
15 settlement.

16 I have said before that this has not been an
17 easy Regional Dialogue. These issues are very
18 important, and you're very smart people on all sides of
19 the table working on the issues. It's just not an easy
20 thing to do.

21 Through the efforts, though, it appears that
22 there has been consensus on several issues, but the
23 residential exchange program remains a key unresolved
24 issue. And in all fairness to our customers, we are
25 asking Bonneville to reconsider its proposal.

1 The residential exchange program was
2 established by the Northwest Power Act in 1980 to
3 provide our customers with a statutory right to receive
4 a share of the regional benefits of the Federal
5 Columbia River Power System. And under that program,
6 our residential customers receive credit rather than
7 low cost federal power.

8 It's very important to us that you recognize
9 that these benefits flow directly to our customers
10 dollar for dollar and so none of the benefits actually
11 impact our bottom line or our shareholders. And a lot
12 of those really do bring it down to our customers.

13 For Puget Sound Energy, we actually serve
14 approximately 1 million electric customers. And
15 predominantly, our customers are residential and
16 commercial. We actually -- our large industrial
17 customers are served by other entities.

18 For Puget Sound Energy, at our current rate --
19 and I say that because we're awaiting a current rate
20 increase from our commission that would go into effect
21 on January 1 -- but under our current rate versus the
22 Bonneville proposal, for our residential customers,
23 that would impact our bills by 5.4 percent.

24 So if I look at a current bill of -- well, a
25 thousand kilowatt-hours for our residential customers,

1 that is about \$79.61. Under the Bonneville proposal,
2 it would be a \$4.30 monthly increase to our customers.
3 So you can see, this is a significant issue for our
4 customers and our company.

5 And, in the interest of time, one, because I
6 fear Paul, and, two, because we are seeing this as a
7 panel so I'm going to reserve some time over to Jim and
8 to Kelly.

9 MR. LOBDELL: Thanks, Kimberly.

10 Larry's going to help me with some visuals
11 that we've brought here today, but if I can just have
12 you move it out here so the Secretary and others can
13 see it.

14 Today, our message is very simple. It's
15 effectively: BPA should not reduce the customers' --
16 reduce the benefits of our customers in the residential
17 exchange program. Through the Regional Dialogue
18 process, we've been working to ensure that our
19 customers receive a fair share of the benefits of that
20 program in the post-2011 period that's comparable to
21 the benefits that they currently receive today.

22 Today, investor-owned utilities provide
23 electric service to over 60 percent of the residential
24 and small farm customers of the Pacific Northwest.
25 However, our customers currently only receive less than

1 18 percent of the benefits of the federal hydro system
2 through the residential exchange program as
3 demonstrated by this chart.

4 In today's dollars, this 18 percent that our
5 customers receive totals \$300 million and is already
6 accounted for in determining BPA's current cost and
7 rate structure. However, BPA's current proposal would
8 reduce the residential exchange benefit to \$250 million
9 in 2012 dollars. In today's dollars, that's
10 effectively reducing it to \$200 million or a one-third
11 reduction.

12 In all fairness to our customers, we're asking
13 that BPA reconsider this proposal. We recognize that
14 these benefits are directly passed through to our
15 customers, and it should be noted that we're not asking
16 for an increase in the residential exchange benefit.
17 We simply ask that BPA not reduce the current level.

18 In contrast, BPA's public power customers have
19 access to the reliability and low-cost structure of the
20 federal power system, the crown jewel of the Pacific
21 Northwest, and a resource that will only continue to
22 increase in value for the region.

23 This program that Kimberly had mentioned that
24 came out of the Northwest Power Act was intended to
25 provide some degree of wholesale rate parity. As you

1 can see on this second slide, in the time frame of 2007
2 through 2009, BPA is anticipated to provide wholesale
3 power and transmission to its public power customers at
4 an average cost of \$31.23. In contrast, the average
5 cost of wholesale power and transmission to serve our
6 residential customers is projected to be \$49.84 or
7 60 percent higher than BPA's public power customer
8 rates.

9 With the current level of residential exchange
10 program benefit, our average cost is reduced to \$43.33,
11 still significantly higher than public utilities cost
12 by approximately 40 percent, a disparity that will only
13 increase under the current proposal if it's adopted.

14 Further, if you'll turn your attention to this
15 next graph, you'll see that the current proposal also
16 anticipates allocating a significantly lower percentage
17 of the value of the federal system to our customers
18 than has been experienced historically. In addition,
19 this proposed loss of value of benefits becomes very
20 challenging to our customers to accept while at the
21 same time other elements of the BPA public power
22 benefits would be expanded under the current proposal.

23 The combined impact of these proposals would
24 further tilt away the balance away from our customers
25 who already receive a disproportionately low share of

1 the regional benefits. For example, BPA proposes to
2 augment its system by 300 average megawatts to grant
3 certain public power utilities greater rights to the
4 low priced federal power. The proposal also calls for
5 allocating 250 average megawatts of low priced
6 fee-based power to yet-to-be formed public utilities.

7 Along these lines, we believe that any
8 expansion of the public power benefits should be
9 adopted only in the context of the overall -- of an
10 overall comprehensive settlement that does not reduce
11 our customers' residential exchange program benefits
12 from their current levels.

13 In summary, we believe that providing fairness
14 to all parties will help bring alignment to the region
15 and allow us to focus on the more important energy
16 issues that we face; such as, insuring an adequate
17 supply of energy to meet our needs of our growing
18 economy and a robust transmission network that enables
19 reliability.

20 I echo Seattle City Light's comments on the
21 transmission system, the congestion -- the nature of
22 the congestion in the system and the fact that it's a
23 system that we continue to push further and further to
24 the edge. So at some point in time, it's going to
25 break. And we need to be planning now for investments

1 that will ensure its reliability.

2 We also echo his comments on renewable
3 resources. As a region, we need to continue to
4 diversify our portfolio away the technologies and the
5 fuel sources that we currently have in order to provide
6 more stability to the region.

7 So, again, we thank you and appreciate the
8 opportunity to make comments today.

9 MR. NORMAN: Thanks, Jim. Kelly?

10 MR. NORWOOD: I'm Kelly Norwood with
11 Avista Utilities. We provide electric service to
12 approximately 340,000 customers in Eastern Washington
13 and Northern Idaho.

14 I'd like to step back for just a moment to the
15 Regional Dialogue proposal itself. And we very much
16 support what Steve and Bonneville is trying to do here
17 through that proposal. It will provide structure, more
18 structure around the acquisition and planning for
19 resources, which is badly needed, and also what kind of
20 price is paid for that. And Bill mentioned -- Bill
21 Drummond mentioned earlier about, back in 2000-2001,
22 where there was concerns about loads that were dropped.
23 And so this is something that's very important, and I
24 would commend Bonneville for starting this process.
25 And I hope that we're able to bring it to a positive

1 conclusion.

2 We're really in a time of transition, a time
3 of change. And, obviously, during those kinds of
4 events, there's going to be some challenges with that.
5 There's going to be some pain that all of us go through
6 that, and I think that's some of what you're hearing.
7 And what you've heard in the last several months is
8 that the struggle to reach that balance of what makes
9 the most sense for all parties and how do you strike
10 the balance when we're going through these kinds of
11 changes?

12 I was encouraged, Mr. Secretary, with your
13 opening comments about looking toward the region to
14 work this out. And so I think that's the -- I'm
15 encouraged with that, and I believe that's the right
16 way to go about this.

17 In terms of going forward, I think the process
18 that we've been engaged in, Bonneville has been very
19 open. Its staff has been very good about seeking out
20 comments and input. And so I think that the way to
21 continue with this is to try to seek some kind of
22 settlement to resolve all the issues.

23 As we look forward to the future here, there
24 are some very good things going on. And we've
25 talked -- it's been raised before about the value of

1 the Bonneville system. And the value of the
2 federal-based system has gone up, and it's gone up for
3 a couple of reasons: One is the wholesale price of
4 power has gone up, which, in a sense, is a good thing,
5 and in another sense, it's a bad thing.

6 If I could get Larry to put the chart up that
7 shows some prices, I'll go over that in just a minute.
8 In the last several years, what you'll see on this
9 chart is that Bonneville has been able to actually
10 reduce their rates to the customers that they serve.
11 And that's a very good thing.

12 And part of that's driven by the increased
13 value of the federal-based system, but also Bonneville
14 has been through a process of taking a look at their
15 overhead costs. And they are to be commended for
16 looking internally at what the costs are and for
17 reducing those costs. And that's another factor that's
18 gone into reducing those rates.

19 With that, then, goes back to what Jim had
20 talked about, with the value of that system increasing
21 as I look at the customers that we serve, as an
22 investor-owned company, with that system increasing and
23 a proposal in the Regional Dialogue to reduce the
24 benefits to the investor-owned customers, it makes it
25 difficult, then, to marry those things together. So

1 it's a very good thing that the system is more
2 valuable. But as that system increases in value, there
3 should be a corresponding benefit to all customers.
4 Not just to the publicly served customers, but to
5 investor-owned customers also.

6 So the starting point in terms of the
7 residential exchange benefits is one point. But a
8 second item, too, is how does that change over time?
9 And, of course, we're talking about long-term contracts
10 here, which I think is the right way to go and a good
11 thing to do.

12 But in the Regional Dialogue proposal, there's
13 a formula that's applied to how that changes over time
14 which causes the number really not to change very much.
15 And it doesn't change much whether the value of the
16 system goes up or the value of the system goes down.
17 And if we are to have a solution here that's durable
18 and sustainable for the long term, then I think it's
19 important that, as we go through time, that the value
20 to all the customers, whether it be to the publicly
21 served customers or IOU customers, changes over time as
22 the value of the system changes over time.

23 That's all I had. Thank you.

24 MR. NORMAN: Thanks, Kelly.

25 Questions for this panel?

1 MR. SELL: On this question of determining
2 what is the appropriate level of the residential
3 exchange benefit, what does the law require or what is
4 the appropriate standard by which that determination
5 should be made?

6 MR. NORWOOD: I guess I'm going to go to
7 what comes to my mind first, and I'm going back to
8 something that the Ninth Circuit noted back in 1985.
9 It says, One of the goals for the Act is to ensure that
10 residential consumers served by Northwest IOUs have
11 wholesale rate parity with residential consumers served
12 by publicly owned utilities and public cooperatives,
13 BPA's preference customers. Parity is to be achieved
14 through residential purchase and sale agreements
15 between BPA and the IOUs.

16 So I think that's part of the challenge that
17 we have here is there is interpretation of how you get
18 at numbers. And I think that's the source of
19 litigation and uncertainty. And I think that's what
20 we're trying to solve here is to provide some certainty
21 around that because there has been so much uncertainty
22 in the past.

23 MR. WRIGHT: Clay, let me add to that
24 answer a little bit.

25 MR. SELL: I was going to say: That may

1 be the best answer there is, but it didn't help me a
2 lot in terms of trying to figure out how to think about
3 it. But maybe Steve will help me.

4 MR. WRIGHT: Well, I just was going to try
5 to save you from an hour's worth of public comment at
6 the end. Because I think there's another perspective
7 here from the publics, too, that you want to be aware
8 of.

9 So there is this concept of rate parity in the
10 law. There also is a provision in the law that says
11 that the public utility should be no worse off than it
12 would have been had the Northwest Power Act hadn't
13 passed, which is very difficult to calculate. It
14 requires you to develop a hypothetical world 25 years
15 after the passage of the Act of what would have
16 happened.

17 And, consequently, the discussion and the
18 debate about what the law requires, in our analysis of
19 this, said that there is a range of answers here all
20 the way from zero up to well above \$300 million. And
21 so, fortunately, the law helps us some, but it actually
22 doesn't bring us the type of clarity that fosters
23 resolution. And, consequently, these settlement
24 discussions have been the sole course to see if we can
25 get the parties to come to some sort of agreement.

1 MR. HILL: Do all three of you agree that
2 there should be a settlement concerning residential
3 exchange programs?

4 MS. HARRIS: Well, yeah. I guess I'm
5 speaking for the panel. And I think this actually gets
6 to the first question of Mr. Sell, and that is, you
7 know, how do you calculate? So you can either
8 calculate it through the Act or you can reach a
9 settlement.

10 A settlement provides the region a couple of
11 things. It provides us certainty for 20 years. We are
12 all -- I think, in this region, there's a shortage.
13 There is a shortage of generation, and you've heard
14 about the transmission issues. We have huge issues in
15 this region to address. And we need to turn our
16 attention to the issues of generation and transmission
17 rather than allocation at this point.

18 So I think settlement would provide the region
19 certainty and will also provide the region alignment.
20 For example, for our utility, we are in an acquisition
21 period. In just the last five years, we purchased a
22 gas plant and two wind farms. There are public
23 entities as well that will need to acquire large
24 portions of their supply. And we would like to, if we
25 can, partner with others in the region to provide that

1 type of supply. So I think we are all looking for a
2 settlement.

3 MR. HILL: What's the major obstacle to a
4 settlement at this point and what can be done about it?

5 MS. HARRIS: You guys want me to speak for
6 the room?

7 MR. SELL: You have the mike.

8 MR. NORWOOD: I guess I want to take a
9 shot at that.

10 This meeting, in a way, unfortunately, is
11 occurring at a time where I think that there has been
12 meaningful progress toward coming to a resolution of
13 many of the issues. And I think what we need is, in my
14 view, more time. And there has been some good ideas
15 that have been raised in recent weeks that I believe
16 have brought us closer, but we're not there. But I'm
17 still hopeful that we can get there.

18 MR. HILL: Is there anything that
19 anybody -- just speaking for myself -- and I think that
20 a settlement -- and you heard the Deputy talk earlier
21 about the desirability of certainty and, of course, you
22 see that throughout the Bonneville proposal as well.

23 Despite being a lawyer who, you know, and all
24 my lawyer colleagues who make their livings off of
25 transaction costs, if we can actually eliminate some

1 transaction costs as in the litigation that I know that
2 has been in the past and that may still -- over this
3 particularly difficult issue, it strikes me as an
4 unmitigated good. And if there can be a settlement
5 reached on that, that would strike me as something that
6 would be of value, probably, to everybody in the room
7 and to all of your customers. And not just your
8 customers, everybody else's customers in the room.

9 Is there anything that the people sitting here
10 at this table or anybody else at Bonneville could do
11 that actually would promote the reaching of a
12 settlement? I realize that the folks at Bonneville
13 have been working hard with you all on that, but is
14 there anything else that can be done? Be frank.

15 MS. HARRIS: Well, I guess I would say in
16 addition to Kelly's need for more time, I think we need
17 movement in the region. I mean, I don't know if
18 necessarily time but, to be perfectly honest, in this
19 room, I think we need movement from both sides.

20 MR. HILL: Anything that anybody sitting
21 here can do to help that along?

22 MS. HARRIS: Jim?

23 MR. LOBDELL: Yeah. I guess I didn't
24 introduce myself. For the record, I'm Jim Lobdell.
25 I'm vice president of power operations and resource

1 planning for Portland General Electric. I deal with
2 all the power issues associated with providing service
3 to about 60 percent of the State of Oregon.

4 So when I look at this issue and I look at the
5 other issues that we have that we're struggling with in
6 the Pacific Northwest, I see this as an issue that
7 should have been solved a long time ago. It's an issue
8 that, when you break it down on a per megawatt-hour,
9 we're talking nickles and dimes and quarters. We're
10 not talking huge amounts of dollars.

11 I believe Kimberly made a comment about the
12 fact -- and Jorge did, also -- about we need to be
13 focusing in on the rest of the infrastructure. When we
14 look at the resources that are in the region right now,
15 we're possibly not going to be putting too many more
16 thermal resources. We're focusing on renewables in
17 order to create some independence. Right now, that is
18 taking us in the direction of adding wind to our
19 portfolio.

20 Wind is a great thing. Wind will help move us
21 in the right direction. But it's not the ultimate
22 solution. As mentioned before, we need to start
23 looking at other types of technologies. And so, from
24 my perspective, firming up the reliability of the
25 transmission network by providing additional investment

1 in that area and helping us focus in on bringing new
2 types of generation technology to the marketplace so
3 it's commercially viable, those are the areas that you
4 can help us out the most.

5 MR. HILL: If I can just encourage you on
6 this residential exchange program to get folks
7 together. And I realize they're probably working very
8 hard. But knock heads together in whatever way that
9 needs to get done to get that settled and resolved.

10 One of you all alluded to the fact that
11 somebody else will end up deciding it, whether it's the
12 judges down in San Francisco or whether it's the
13 administrators in Portland.

14 I mean, you have the ability, with reaching a
15 settlement on this, it seems to me, to control your own
16 fate if you can agree on that. And I encourage you to
17 put whatever you need to into making that happen. And
18 not just you all, but the other folks who you're in
19 discussions with.

20 MR. KOLEVAR: Jim, I have one follow-up
21 question for you.

22 You were the only one that seemed to divert
23 from the exchange program in your remarks. You spoke
24 to the advantages and merit in pursuing renewables.
25 When you were addressing the panel here just a moment

1 ago, speaking to the importance, no one certainly, I
2 think, disagrees with the importance of appropriate
3 transmission expansion and pursuit of new renewable
4 technologies.

5 But so I'm clear: Are you speaking to DOE?
6 Are you speaking to Bonneville? And to the extent
7 you're speaking to one or the other, I'd be interested
8 to know very specifically what it is you think we
9 should or ought to be doing in this respect.

10 MR. LOBDELL: In this respect, we need to
11 ensure that we've got the capacity -- we can attract
12 the investment. And in order to attract the
13 investment, we have to make sure there's as much
14 stability. It's like financing any type of project out
15 there.

16 If you're trying to find a financier, they're
17 going to turn around and they're going to try and
18 identify all the risks associated with that. And as
19 they do that, they're going to tick them off and say,
20 Is this something I'm willing to invest in?

21 When we try and attract investment capital to
22 the Pacific Northwest, the more stability that we can
23 bring by being able to say, from Bonneville's
24 perspective, We've got long-term contracts, we know
25 who's going to be paying the bills associated with

1 this, so that we can go out and make those types of
2 investments and know that we're going to get a return
3 of our capital, those are things that would be very
4 helpful for us as a region.

5 MR. NORMAN: Any other questions? Thanks
6 very much to this panel. We appreciate it.

7 Our next panel is small but mighty, the
8 direct-service industries. And, Jack, I think we'll
9 start with you.

10 MR. SPEER: Thank you, Paul.

11 My name is Jack Spear. I'm Northwest vice
12 president for government and energy affairs for Alcoa.
13 We own two aluminum plants in the Pacific Northwest and
14 Washington State with direct employment that's going to
15 be about a thousand people next year.

16 Alcoa needs 625 megawatts of power in addition
17 to what we already purchase from Chelan PUD to keep our
18 plants operating at capacity. We have traditionally
19 relied on BPA for that energy, and we have nowhere else
20 to turn to if BPA decides not to serve us with that
21 energy.

22 We really appreciate what you said, Mr. Sell,
23 about the certainty and need for investment. Our
24 plants are in that situation very much, and we have
25 been facing uncertainty for some time.

1 My approach for today is to be very brief with
2 my comments. I have five minutes. I'm going to make
3 five major points and give people the 40,000-foot view
4 of what's going on here and leave time for questions.
5 And I hope you will indeed ask questions. I think
6 that's really the best way to get to some of these
7 issues we're talking about.

8 First, Point No. 1, the Northwest needs
9 cost-based federal power. I don't speak for all the
10 parties in the Northwest by any means. I heard some
11 words from John Saven and others emphasizing the need
12 for cost-based federal power; it's fundamental to the
13 BPA proposal. And it's also very important that Alcoa
14 receive its fair share of this cost-based federal
15 power.

16 Point No. 2, Alcoa wants equitable
17 treatment, not a subsidy. After 2011, we want to
18 purchase BPA cost-based power like other industries
19 that are customers of consumer-owned utilities served
20 by BPA. BPA should sell 560 megawatts of cost-based
21 power to local consumer-owned utilities for resale to
22 aluminum plants. 560 megawatts is about 18 percent of
23 the power once used by the aluminum industry in the
24 Northwest.

25 That's not enough even for Alcoa to operate

1 our plants at capacity. It doesn't guarantee our
2 success. It does give us a chance to survive, and we
3 are willing to support that number in the spirit of
4 compromise to make the BPA proposal work.

5 It's important to realize that selling
6 Northwest aluminum plants' power for a fraction of
7 their load at the same rate paid by other industries
8 for their entire load is not a subsidy.

9 Point No. 3, selling 560 megawatts of power to
10 the aluminum plants is both fair and legal. BPA is
11 already selling power to Port Townsend Paper Company, a
12 direct-service industry. In 1965, the Regional
13 Preference Act provided that Northwest industries would
14 not be priced out of the market when new transmission
15 lines were built to California to facilitate surplus
16 power sales. This Act was intentionally put in place
17 to protect Northwest industries like us that were
18 getting priced out of the market because of
19 California's prices. But the change to market-based
20 wholesale transactions did not change the Northwest
21 preference law, and it should not change the objective
22 of keeping Northwest industries operating.

23 BPA should not abandon Northwest aluminum
24 plants in order to increase surplus sales, power
25 revenues so that other customers can benefit. The 1980

1 Northwest Power Act allowed BPA to sell power to
2 aluminum plants and assumed that, without that
3 legislation, that those plants would be served through
4 their local utilities. That was the premise of the
5 Northwest Power Act. Now, we're considering changing
6 the implementation of the Power Act, and a modest
7 amount of power to the aluminum companies under this
8 new paradigm is not an unfair idea.

9 Point No. 4, selling BPA power to aluminum
10 plants in the Northwest will benefit the Northwest.
11 Independent economists have concluded that Northwest
12 employment will likely be higher if aluminum companies
13 purchase BPA cost-based power. The updated study by
14 Richard Conway summarizes many economic benefits
15 resulting from Alcoa's Northwest plants. All of this
16 is in the public record for this process.

17 At full production, the benefits just for
18 Alcoa include a total employment of 5,630, \$350 million
19 per year in personal income, and \$33.5 million per year
20 in taxes. It makes a difference.

21 And my last point: It's important to realize
22 that Alcoa plants can survive with adequate amounts of
23 cost-based power. The world aluminum industry is a
24 robust industry. We expect the amount of aluminum to
25 be doubled before 2020. Alcoa has to add many aluminum

1 plants around the work just to maintain our market
2 share without closing any Northwest capacity.

3 The study done by CRU Strategies that looks at
4 aluminum prices and production around the world
5 concluded that Alcoa plants would likely operate into
6 the indefinite future with power prices expected from
7 BPA. So this decision very much will make the
8 difference whether we can operate or not.

9 Thank you, Paul.

10 MR. NORMAN: Thanks a lot, Jack. Jim?

11 MR. STROMBERG: My name is Jim Stromberg.
12 I'm the power manager from Columbia Falls Aluminum
13 Company which operates up in Northwest Montana. It's
14 been there since 1955 under various owners.

15 We, along with others, have participated in
16 the Regional Dialogue meetings like this that have a
17 number of topics to address the DSI issue. We provided
18 comment on jobs, numbers, economics, those sorts of
19 things. And I won't go into that here. I would like
20 to focus instead on just one unique point. What you're
21 going to hear from me is very, very similar to points
22 that Jack has made.

23 The Northwest Power Act, which you've, of
24 course, heard mentioned a number of times today because
25 it's central to Northwest power had a number of

1 purposes. One of those was to give BPA tools for
2 meeting power loads. And instead, as things have
3 evolved through the public debate and through decisions
4 that have been made, we see very different actions
5 being taken than what Congress contemplated.

6 We're in a situation where BPA has declined to
7 continue serving -- physically serving our load. We
8 are not receiving any Bonneville power now, but we do
9 receive a financial payment in lieu of that. And
10 that's being done, I mean, the arguments for that
11 are -- have been real simple: Just to keep prices to
12 others lower. The math is all very, very simple. We
13 all do the math the same. We just look at this very,
14 very differently.

15 I don't think what we've gotten to is good
16 public policy. And it may not make too much -- not to
17 make light of it, but I can best describe this as sort
18 of the Donner Party approach to power plants. It's
19 very easy to do and desire if you're seated at the
20 table. But when you're the entree, it's not. And we
21 would like to be seated at the table; we don't think
22 it's fair to be the entree.

23 Over the last 25, 26 years since the passage
24 of the Act, at least during the development of the
25 passage of the Act, one of the things that happened,

1 and Jack alluded to this, it figures a lot into my
2 thinking as to why I don't think it's at all fair to
3 the public policy that we not receive physical power.
4 And that is, if we had -- our predecessors, the owners
5 of this facility, had the right to become customers of
6 public power, we wouldn't be having this debate right
7 now.

8 Our plant was being served by Flathead
9 Electric Cooperative. But it was the Bonneville Power
10 Administration, for its reasons, that insisted, during
11 the development of the Northwest Power Act, that the
12 DSIs remain directly served. So now we find ourselves
13 in this unique category that I don't think anybody
14 particularly envisioned that we would be in.

15 Jack mentioned the numbers, and we are, we're
16 down to like 18 percent of what the industry used to be
17 out here. Some of that is obviously influenced by
18 global economies but also it's power. Power is, of
19 course, the unique thing here.

20 Others have argued that -- and you heard this
21 from the previous panel -- that to serve DSIs or
22 certainly to serve more, you're going to increase the
23 rates that I pay. I don't think that's the proper way
24 to look at the situation, perhaps because we're the
25 entree in this. But what these others are really

1 saying is that the more DSI service that is eliminated,
2 the lower the price is for them.

3 Now, the PF rates just came out, and it works
4 out to about 127 bucks when you put it into our load
5 factor. That's pretty darn low compared to what else
6 you see out there. They have received -- they are
7 enjoying those benefits now. We don't use the
8 subsidies. We would like to be sitting at the table
9 and getting some of that.

10 We think it's only fair that we get at this
11 cost-based power like we had for some 50 years. We
12 really only want some of what ICNU's members have. I
13 don't know how the cost allocations work in their local
14 utilities. But it's pretty clear that the given rates
15 from Bonneville go to those local utilities, and that's
16 what we're looking for is to pay the same charges.

17 The fact that our load factor may be different
18 and the fact that we share in the high voltage
19 transmission system, that's not the question; we're
20 talking about the power. So the fair and balanced
21 solution to this is to pick. And it's really picking
22 the one end of the range that Bonneville sees as
23 defined in all of this. And at one end of that is
24 560 megawatts of Tier I PF power to DSIs. Then we can
25 define the range for people to look at the

1 alternatives.

2 That would be a good place to be. That would
3 be 18 percent of what we used to be. That, to me, is a
4 pretty fair compromise place. For us, I think those
5 numbers work out to be about 40 percent, maybe a bit
6 more, of capacity. And we can make it here with that
7 kind of a thing, and we can continue to invest in our
8 facilities and take advantage of the federal market.

9 Thank you.

10 MR. NORMAN: Any questions for this panel?

11 MR. SELL: Both of you in your remarks
12 used phrases like "what Congress contemplated" and you
13 referred to acts specifically passed with the intent of
14 protecting the DSIs. Why, when Congress acted, did
15 they not give you preference rights to Bonneville
16 power? Seems to me that -- if it was their intent to
17 protect interests, that would have been the appropriate
18 action which was not taken.

19 MR. SPEER: At the time of the Northwest
20 Power Act -- and I spent several years working on that;
21 there was a lot of things in play. One was the
22 expected impending power shortage. Another was an
23 ability to try to get the maximum use out of the
24 variability of the Columbia River system. And so there
25 was a mechanism set up that direct-service industries

1 would be served by partially interruptible power. And
2 that was not as a desirable place to be as being on
3 public power.

4 So the law was set up to force us to be direct
5 customers of BPA under the regional power as a
6 compromise so we wouldn't go to the better arrangements
7 enjoyed by other industries in the Northwest. The
8 Northwest needed those kinds of reserves. This was a
9 way of getting there. It wasn't an effort to push us
10 out of the region. It was an effort to get us to this
11 interruptible power provision.

12 MR. SELL: If I may ask one other
13 question? Melinda Davison, in her remarks, used a
14 specific example of the nonaluminum DSIs and laid out a
15 case where they actually -- if the DSIs got what they
16 were asking for -- what's the name of the company?

17 MR. WRIGHT: Port Townsend Paper Company.

18 MR. SELL: Port Townsend Company would
19 actually benefit from power at a lower rate than the
20 preference rate. And if you could respond to that, if
21 you can.

22 MR. SPEER: Well, we are, again, asking
23 for the same kind of treatment. We think Bonneville
24 should sell power to our serving utilities at the same
25 rate they sell to the serving utilities that serve

1 ICNU's customers.

2 Now, each utility will have different service
3 requirements and different markups for their individual
4 customers and that will vary. So the rates between
5 some plants will vary, but that's really under the
6 control of the local utility. What I'm saying is that,
7 as far as Bonneville goes, the rate ought to be the
8 same.

9 And if you go back to the Regional Power Act,
10 you'll see that the rate paid by DSIs was supposed to
11 be a rate that was equitable when compared to rates
12 charged to industrial customers of consumer-owned
13 utilities. That language is in there as one of the
14 premises.

15 Now, there's a lot of details that happened
16 since then that you can argue about the numbers and
17 that's what we're doing absent some sort of agreement.
18 And I think an agreement is the right answer to resolve
19 these things.

20 MR. STROMBERG: I would just follow up to
21 that.

22 Specifically, what we're talking about is if
23 you have the same rate, it's not the same dollars per
24 megawatt-hour average. It's the same demand charge,
25 it's the same energy charge, heavy load or light load.

1 You can start with that, but I don't know what Port
2 Townsend's deal is exactly. But if that's what they're
3 getting and other customers that take -- have a local
4 utility are paying more, it's perhaps a local rate
5 allocation that's going on that's completely out of the
6 Bonneville arena.

7 But also, with respect to us and getting
8 delivered power, we take it at 230 KB. We are more
9 efficient users of power with respect to our load
10 factor, and we run it over 99 percent. And so when you
11 get down to it -- so I don't know when somebody says
12 that they're paying more or paying less, you've got to
13 look at all that. We're talking about paying the very
14 same demand charge and the same energy charge.

15 MR. HILL: Does the argument between the
16 industrial customers that are customers of the publics
17 who are preference customers and the DSIs, does the
18 difference between them basically boil down to the
19 other industrial customers saying, You're not a
20 preference customer. Bonneville doesn't -- is not
21 legally required to sell you anything; therefore, you
22 get nothing.

23 And your argument is, We -- we agree we're not
24 legally entitled to anything but it's fair.

25 MR. SPEER: We don't necessarily agree

1 we're not legally entitled. When I quote the law, the
2 Regional Preference Act as well as the Northwest Power
3 Act and the history, I think we can make a good case
4 that we will take to court to say that we are entitled.

5 So our major argument is, Let's have an
6 equitable rate arrangement so we don't have to go to
7 the courts to have them determine that.

8 MR. HILL: I guess -- I actually meant to
9 ask Ms. Davison this earlier but maybe you can
10 answer -- maybe I'm asking out of order.

11 But even if it's not legally required, why is
12 it not fair to these DSIs.

13 MR. SELL: Paul, is this legal?

14 MR. NORMAN: That's acceptable.

15 MR. HILL: Is that legal? Even if it's
16 not legally required to sell to the DSIs, why is it not
17 fair?

18 I mean, there are all sorts of fairness issues
19 that come in, in terms of this entire proceeding. Why
20 is it not fair that the DSIs get what is laid out in
21 the proposal?

22 MS. DAVISON: Well, one issue is what
23 we've already talked about, which is the fact that --
24 under the competitive issue, and I'm not going to
25 reiterate that.

1 But the other issue is that we have a very
2 different interpretation of the Northwest Power Act.
3 And we believe that Congress actually intended to just
4 give the DSIs their arrangement for 20 years which is
5 what, you know, we think the law says.

6 And then, beyond that, it has been
7 Bonneville's discretion as to whether or not to
8 continue to provide the DSIs with either power or with
9 cash. And we have -- there's a huge amount of history
10 here, and I don't want to go into too much about it.

11 But there was very infamous time during the
12 energy crisis in which the DSIs received very large
13 cash payments for Bonneville buying out their rights to
14 Bonneville power. And many people believed that that
15 would be the end of this DSI subsidy.

16 And so then that wasn't the end. So that
17 takes us to today. And the question becomes post-2011,
18 why should the DSIs continue to receive Bonneville
19 power when they don't have a direct right in the Act to
20 do that? And we say it's because Bonneville doesn't
21 have enough power to provide the full-requirement needs
22 of its preference customers. If there was plenty of
23 power to go around, we wouldn't be having this whole
24 discussion.

25 MR. HILL: And I accept all of that,

1 except there's not enough -- there's not enough hydro
2 resource for everybody everywhere to get all that they
3 want. I don't think anybody would disagree with that.
4 But I guess, the question, again, is, though, why is it
5 that what is fair is that the preference customers get
6 what they get and the DSIs get nothing?

7 MS. DAVISON: I think that it comes down
8 to an issue that our members have been on Bonneville's
9 system as receiving power from preference customers all
10 these years, and they have an actual legal entitlement
11 to that power. And we're currently, as I said, paying
12 approximately a dollar per megawatt-hour.

13 The general view is that the economy is good,
14 but we have industries, industries who are -- today,
15 they are on the edge. They are truly on the edge of
16 shutting down. And so for us, the fairness issue comes
17 down to, Are you going to take money out of our
18 members' pockets and perhaps jeopardize the economic
19 viability of one of these paper mills that's in a rural
20 area that is truly providing the only jobs for that
21 community and give those dollars over to the aluminum
22 industries?

23 And it's as simple as that is how we see the
24 subsidy issue. And that's why we don't think it's fair
25 is that we are fighting for our economic survival as

1 well.

2 MR. SPEER: May I?

3 MR. HILL: I knew that wouldn't go without
4 a comment.

5 MR. SELL: Let me just say. It's very
6 helpful -- perhaps ya'll have had this debate before.
7 I don't know. But it's very helpful for me, and I
8 expect for David and Kevin, to hear this debate and
9 understand it. I have a surface understanding. To
10 understand the depth of the issue and the history, this
11 is very helpful. So I appreciate you having this
12 little debate.

13 MR. SPEER: Thank you. And I'm pleased
14 that it's going on, too, because it's a hard thing to
15 communicate. But the notion in the Regional Power Act,
16 the region was running short of power. And the parties
17 got together and decided, Well, the solution here is to
18 allow Bonneville to buy power so the region wouldn't be
19 short. And in that scenario, there would be a place
20 for direct-service industries.

21 Now, they're talking about changing that whole
22 paradigm and not buying additional power, allowing
23 there to be a shortage and creating an allocation. And
24 in that scheme, we think that the power for our
25 industry is entirely fair.

1 MR. STROMBERG: Can I follow up with one
2 thing on that?

3 One thing that's not been stated yet: The
4 DSIs are the only group -- if you follow the arguments
5 of folks that say we should not be able to get power
6 from Bonneville, that would put us -- I've always felt
7 like we're sort of unique and we end up being picked on
8 a lot like second-class citizens -- that would put us
9 as the only one, the only industrial customers in this
10 region that do not have access to what you would call
11 cost-based power, even the industrial customers of
12 IOUs. And those commissions do allocate power.

13 Now, some of those folks have gone to market
14 and whatever, but we would -- it put us in a very
15 unique place. Perhaps there are others in the country
16 as well in there, but industry needs, you know,
17 reasonable priced power. I don't debate at all that
18 these members have difficulty with their power costs
19 and they're facing a lot of the same issues as we do
20 but just different industries and we might be in
21 different cycles now. But that would put us with
22 access to no cost-based power.

23 MR. HILL: Can I ask one more question,
24 Paul? I'm sorry.

25 What is the best response to the argument of

1 the industrials that you're not legally entitled to any
2 of it, and every dollar that goes to you is a dollar
3 that they are paying?

4 MR. STROMBERG: I think it's a zero --
5 when I said earlier that I thought the math was very
6 simple and everyone understood it, and when you get
7 into these sort of cost allocations and then decide who
8 pays what, if you have X number of dollars and a fixed
9 amount of power and if you've got different rates in
10 there, which Bonneville does, if you put more of those
11 cost dollars in one category versus the other, it isn't
12 any more complicated than that. But I think that's
13 just simple math.

14 I think it's a public policy question. Do we
15 want to have an industry that's been out here for
16 50-plus years put completely out to market? It's not
17 an industry that asked to go out there. And I don't
18 think that's a fair thing -- that's why I think it's
19 politics and it's public policy.

20 I don't make my arguments based on the law;
21 I'm not a lawyer. But I certainly believe and I am
22 advised by a few who would say that Bonneville
23 certainly has a legal right -- I didn't say
24 "obligation" -- but they certainly have a legal "right"
25 to serve DSIs.

1 MR. NORMAN: Other questions? Okay.

2 We're going to take a 15-minute break. Again,
3 if you'd like to make a comment during the open comment
4 period, please do fill out one of these cards so that
5 we can be prepared. And let's get back at 4:00 to
6 continue.

7 (Recess taken.)

8 MR. NORMAN: Our next panel here is the
9 representatives from the Northwest Indian Tribes. And
10 after that, we're going to have the public interest
11 groups panel, and then we'll wrap up with the last
12 panel of the afternoon with representatives of the
13 states.

14 And we do have one substitution: Charles
15 Hudson is going to substitute for Rob Lothrop for the
16 Columbia River Intertribal Fish Commission. We're
17 going to start with Margie Schaff.

18 MS. SCHAFF: Thank you very much. I'm
19 Margie Schaff. I am the energy policy analyst for the
20 Affiliated Tribes of Northwest Indians.

21 I'd like to start by expressing our
22 appreciation to Bonneville and to the Department of
23 Energy for holding this forum and for all of the
24 excellent work the staff at Bonneville Power has done
25 in order to work on this proposal.

1 ATNI generally supports the Regional Dialogue
2 Proposal; however, we do see some aspects of the
3 proposal, perhaps, in a different light. I think I
4 would like to use my first one of five minutes by just
5 giving a little background on the tribes of the Pacific
6 Northwest, because our tribes are different from other
7 tribes in the country.

8 The Affiliated Tribes of Northwest Indians is
9 comprised of 57 member tribes. We are spread out over
10 six states, most of whom are within the Bonneville
11 service territory; a few in Alaska and California who
12 are not.

13 About many things, tribes have different value
14 systems. Most but not all of the tribes in our
15 membership are cultures based on salmon. Some of the
16 tribes are salmon tribes that are ocean fishers and
17 some of the tribes are river fishers. Thirteen of the
18 tribes are in the Columbia River Basin. And
19 those -- of those 13 of our 57 member tribes can be
20 also divided among two types: The lower river tribes
21 and the upper river tribes.

22 And the division is kind of in two ways.
23 First of all, the lower river tribes are generally
24 treaty tribes, meaning that they signed away a lot of
25 their lands in exchange for certain rights, and that

1 included protection of the fish and wildlife and
2 especially of the salmon.

3 The upper river tribes are generally executive
4 order tribes, meaning that they were created and
5 recognized by the federal government through federal
6 executive orders.

7 The other reason that the two different types
8 of tribes are different is that the lower river tribes
9 are generally those in the Basin that are below Grand
10 Coulee Dam. And even though our salmon is really an
11 impressive creature and can swim 400 miles upstream,
12 I -- we haven't seen any that's jumped over Grand
13 Coulee yet.

14 So the tribes in the upper river have
15 basically lost their salmon. They are tribes that were
16 traditional salmon tribes that no longer have wild
17 salmon.

18 So aside from the fisheries issues, all of the
19 tribes are local governments. And the tribes provide
20 many, many jobs. And oftentimes -- and generally, they
21 are the largest employer on their reservations. And
22 oftentimes, they are the largest employer in the county
23 among all employers. And this is generally, especially
24 on a reservations, many times in an area of the
25 greatest poverty in this country.

1 How does the Regional Dialogue impact the
2 tribes? Well, three main ways, I guess, I'd like to
3 mention. The first is that directly we're impacted as
4 tribal utilities. We are some of the group that is
5 included as a new public customer.

6 Secondly, we are impacted by transmission.
7 Tribes right now are all large land based -- have had a
8 large land base or oftentimes have many resources and
9 are in the process of developing renewables and other
10 generation and other facilities. So transmission is
11 very important to us.

12 And transfer service as a customer and as
13 someone that is seeking to obtain Bonneville's power is
14 very important. We need to have transmission that is
15 equivalent both on and off the federal system and
16 transmission that is equivalent for both new and
17 existing customers.

18 Third, tribes definitely support the goals of
19 conservation and renewable energy. Indirectly, then,
20 of course, also the tribes are impacted by changes to
21 the fisheries and fish and wildlife issues. Bonneville
22 deems the fish issues to be out of the scope of this
23 process, but the deals cut in this room will truly have
24 an effect on how the fish and wildlife issues are dealt
25 with.

1 In effect, in some cases, they impose a
2 ceiling, and in two ways I can site right off the top
3 of my head. The first is that, if the capacity of the
4 federal-based system is determined before the
5 biological opinion is done, we are not necessarily
6 going to know what the actual federal-based system
7 capacity would be.

8 Secondly, there is a certain rate expectation
9 that is created at the signing of these contracts. And
10 after some of these, when the customers decide to sign
11 up, they have an expectation of the rates. So in
12 effect, even though those fish and wildlife issues are
13 technically out of scope, they do certainly -- this
14 process certainly does have an impact on the treaty
15 rights of the treaty tribes.

16 Back to the tribal utility portion, which
17 among our membership, all the ATNI tribes in the
18 Bonneville service territory do have utility issues and
19 electricity issues, of course. As tribal utilities, we
20 are generally put into the category of new public
21 customers. Fifteen years ago, tribes were basically
22 uninvolved in the electricity industry, and today, they
23 are truly active partners in this industry. And this
24 is an actual direct result of the different federal
25 policies and currently the policy that started in the

1 Nixon administration of self-determination for tribes.

2 And, of course, self-determination, as it's come to be

3 known, includes everything from facilities management

4 and infrastructure on reservations.

5 The federal law and policy currently requires

6 the power marketing administrations to encourage tribal

7 energy development. Title V of the Energy Policy Act

8 of 2005 is particular in that it has numerous

9 references directed to the tribes and tribal energy

10 development and to the power marketing administrations

11 that they interact with tribes.

12 ATNI has sought, in the past, a separate

13 category for tribal utilities. We felt that this was

14 in the administrator's discretion. It's our

15 understanding that the Office of General Counsel at

16 Bonneville has not supported this approach, so now we

17 are in the category of just general new public

18 customers. This is fine if it's created and it's

19 workable for tribes to actually form utilities and

20 start.

21 We do find, though, that there are some

22 problems with the current proposal or with the proposal

23 as it was drafted. There are unattainable deadlines in

24 the proposal that simply make new tribal

25 utilities -- they simply won't form. We have some

1 unachievable or very difficult standards for service to
2 meet, and we are concerned that there may be
3 insufficient power for new tribal utilities over the
4 20-year period with the ceiling that's been put on new
5 loads.

6 Lastly, the high-water mark is set at day-one
7 levels for formation of the utility, which kind of
8 prohibits the growth of a utility. If you're going to
9 start small and try to grow over time, it's very hard,
10 with a low high-water mark, to do that.

11 MR. NORMAN: You're up to seven minutes.

12 MS. SCHAFF: Okay, thank you. I'll just
13 end it there then. I appreciate very much the time,
14 and I'll be happy to answer questions.

15 MR. NORMAN: Thanks, Margie. Ray?

16 MS. WISEMAN: My name is Raymond Wiseman.
17 I'm the general manager for Yakama Power, the tribal
18 utility that serves part of the Yakama Reservation.
19 Being a child of the parent, we retain many of the same
20 values. The Yakima Nation is the largest tribe in the
21 Northwest, with other 10,000 members, and also has the
22 largest number of tribal fisherman in the Columbia
23 River Basin.

24 We appreciate the opportunity to talk to the
25 Department of Energy about our concerns with BPA's

1 proposal. We have provided detailed recommendations to
2 BPA that could address our concerns.

3 As one of the newest public power entities and
4 newest tribal utilities, we were almost immediately
5 thrown into the process known as Regional Dialogue.
6 The formation of a tribal utility is difficult given
7 that BPA does not have specific policies to address the
8 confusing jurisdictions, laws, and other differences
9 that separate us from other public entities.

10 Yakama Power is currently concerned with --
11 about the limitations being imposed on the expansion of
12 our utility. Our tribal utility was formed so that the
13 tribe could secure some benefits from the federal power
14 system which has devastated the tribe's resources that
15 were supposed to be protected in the Treaty of 1855
16 between the Yakama Nation and the U.S. Government.

17 The Yakama Nation established Yakama Power and
18 signed a power sales contract with BPA in 2000 based on
19 the assurances that it would be eligible for up to
20 42 megawatts of low-cost PF power from Bonneville
21 Power. This was the amount of power that's necessary
22 to bring low-cost power to all the residents of the
23 Yakama Reservation which are currently served -- that
24 are currently not served by public power.

25 We relied on BPA's assurances in the formation

1 of our utility, and we believe that Bonneville should
2 honor these assurances. We also believe that BPA has a
3 legal mandate to promote tribal utility development.
4 Federal law provides sufficient authority and
5 discretion to provide low-cost Tier I power for the
6 full development of Yakama Power.

7 Under the proposal, any expansion to serve
8 other parts of the Reservation after 2010 would be from
9 the higher cost Tier II power. The result would be an
10 increase of power costs of almost 16 million per year
11 for Yakama Power compared to serving the Reservation
12 under the melded cost provisions in our current
13 contract with BPA. If we had to pay these higher
14 costs, we would not be able to expand our utility
15 because it would mean significantly raising prices.

16 Unlike other entities present today, the
17 Yakama Nation employs other 2400 people with living
18 wage jobs with less than 10 megawatts of power in an
19 area that has an unemployment rate five times the State
20 average. We are opposed to allocating power to
21 industries which provide few jobs and place incredible
22 strains on the region's natural resources.

23 Yakama Power believes that all utilities in
24 the Northwest have a responsibility to protect our
25 natural resources. Our job is not only to protect our

1 customers by providing the lowest rates but also to
2 improve their quality of life.

3 We must balance rates against clean water,
4 clean air, and the protection of our natural resources,
5 the things that we enjoy and take for granted but miss
6 when they are gone.

7 I believe that the Department of Energy should
8 take the lead in development of renewable energies on
9 tribal lands through grants, technical assistance, and
10 in the actual implementation of the Energy Act. Tribes
11 hold large land bases and have significant natural
12 resources that could benefit the region overall if
13 tribal utilities have the ability to develop and bring
14 renewable energies to the market. And I just wanted to
15 say thank you for allowing us to have the time.

16 MR. NORMAN: Thanks a lot, Ray. Charles?

17 MR. HUDSON: Thank you for accommodating
18 us as a late addition and myself as a late replacement.
19 My name is Charles Hudson. I'm a member of the Hidatsa
20 Tribe from Fort Berthold, North Dakota. It's been an
21 honor to serve the Columbia River treaty tribes Margie
22 mentioned, they being the tribes below Grand Coulee.

23 The Commission, known as CRITFC to us, is
24 comprised of the tribes from the Nez Perce, Umatilla,
25 Warm Springs, and the Yakama Nation. Thank you for the

1 opportunity again.

2 At the outset, let me say we oppose BPA's
3 proposal as its currently structured, and we have
4 provided detailed comments that address our concerns.
5 They're dated October 31st, I believe. Yes, they are.

6 The BPA proposal provides significant
7 certainty and benefits to BPA and its utilities. It
8 would fundamentally change BPA's role in the Pacific
9 Northwest and lock in power allocations and new power
10 sale contracts for the next 20 years. BPA has said
11 that this Regional Dialogue is a power issue, and that
12 it does not plan to address fish and wildlife.

13 This proposal falls asleep at the wheel.
14 Because here in the Pacific Northwest, we have long
15 been awake to the fact that salmon survival is firmly
16 imbedded in energy policy. That policy takes a public
17 resource, sets the electric rates, allocates the
18 energy, and has a result of pitting power against fish
19 in dispensing the river's natural functions.

20 There is certainty that the existence and
21 operation of the federal dams continues to kill fish
22 and wildlife. This underscores the need for the
23 federal government to honor their commitments to us and
24 for BPA and their customers to commit to assuring more
25 certainty for fish and wildlife recovery as part of

1 overhauling the electric system.

2 Our written comments document the failures in
3 meeting the targets for river operations, to improve
4 the survival of migrating salmon and steelhead, and
5 they detail the inadequacy of habitat and production
6 actions to rebuild fish and wildlife. They also
7 describe BPA's decisions to shift risks from the power
8 system to fish and wildlife.

9 BPA claims that keeping the Tier I rates low
10 makes it less likely that fish and wildlife efforts
11 will be cut. The fact is that, between 2000 and 2006,
12 BPA rates were below market by an average of
13 61 percent. Yet, during this period, BPA eliminated or
14 reduced protection, mitigation, and enhancement actions
15 for fish and wildlife.

16 BPA's current rates are 53 percent below
17 market, and we are still seeking their commitment to
18 fully implement an aggressive effort to rebuild fish
19 and wildlife which are part of our treaty assets.

20 BPA claims their proposal will avoid
21 overcommitments of power to utilities, a primary factor
22 in the Agency's emergency declaration in 2001. This
23 declaration eliminated important river protections that
24 have devastating effects on migrating salmon and
25 steelhead. While there is some improvement in the long

1 term, the proposal would still permit BPA to serve its
2 entire load during a rate period, typically three to
3 five years. If BPA lost resources during a rate
4 period, it might be forced to declare another
5 emergency.

6 By shifting the responsibility for meeting
7 load growth to its utilities, there is a real
8 possibility that, like in the 2000-2001 energy crisis,
9 resources will not be developed in time to prevent the
10 region from again using emergency declarations to keep
11 the lights on.

12 For all these reasons, we believe that BPA
13 should commit to having sufficient resources or other
14 contingencies, such as binding resource adequacy
15 standards, so it does not eliminate critical fish
16 protection operations in the future.

17 Our second major concern is that BPA's
18 proposal is not designed to assure full development of
19 fish-friendly resources. Our written comments describe
20 our energy vision for the Columbia River. This vision
21 outlines energy efficiency and renewable resources that
22 can be developed to meet future needs in a wise and
23 cost-effective manner while reducing the region's
24 dependence on the hydroelectric system.

25 Our comments also describe concerns about the

1 energy efficiency and the renewable resources
2 provisions in the BPA proposal. Failure to secure all
3 cost-effective conservation and renewable resources
4 ultimately leads to adverse effects on fish and
5 wildlife.

6 In summarizing our written comments, our
7 detailed recommendations include: One, provide
8 certainty to rebuild fish and wildlife. Our comments
9 provide a framework for federal commitment to develop
10 and fully implement a comprehensive fish and wildlife
11 program that would meet the obligations of the
12 Endangered Species Act, the Northwest Power Act, and
13 treaties with our tribes.

14 Secondly, revise BPA energy efficiency
15 programs. BPA should modify its proposal to allow
16 utilities to implement BPA energy efficiency programs
17 through 2010 without losing any of their BPA
18 allocation. And BPA should commit to adequate funding
19 to meet the energy efficiency targets in the Northwest
20 Power and Conservation Council's power plan.

21 Third, require utilities to develop resources
22 consistent with the power plan and Northwest Power Act.
23 As a condition of receiving the low cost BPA power, BPA
24 should require that utilities implement all
25 cost-effective conservation and achieve the

1 conservation and renewable resource targets in the
2 Power Council's power plan. BPA should require
3 utilities that sign the new power sales contracts to
4 develop other new resources based on the Council's plan
5 and the priorities of the Power Act.

6 Fourth, BPA should assist tribal utilities.
7 CRITFC supports the comments of its member tribes on
8 modifications to the proposal to promote the formation
9 and expansion of tribal utilities, including the
10 allocation of low-cost power to Yakama Power.

11 In conclusion, we believe our recommendations
12 are consistent with and required by federal laws and
13 policies as well as your treaty and trust obligations
14 to tribes. Representatives of our member tribes
15 believe that BPA does not analyze the environmental
16 impacts of its proposal, particularly effects on fish
17 and wildlife, pursuant to the National Environmental
18 Policy Act, the Endangered Species Act, nor consistency
19 with the Northwest Power Act.

20 We are all seeking certainty. The treaty
21 tribes would prefer to work with BPA and the Department
22 of Energy to resolve our concerns so that a revised
23 proposal that provides such certainty can move forward
24 timely. Thank you .

25 MR. NORMAN: Thanks, Charles.

1 Questions for this panel?

2 MR. SELL: If I may, I'd like to start
3 with a question to Ray. And this is just something I'm
4 struggling to understand.

5 If the supply of cost-based power is basically
6 in balance with the preference requirement, how would
7 you propose the BPA proposal be modified in terms of
8 accommodating -- one of your concerns is that the
9 proposal would not accommodate further growth of the
10 load of the tribal utility; is that correct?

11 MR. WISEMAN: That's partially correct,
12 yes.

13 MR. SELL: And how would you propose that
14 be remedied?

15 MR. WISEMAN: Well, part of the problem
16 is, initially, that Bonneville has no policies in place
17 to accommodate tribal utilities. Tribal utilities have
18 multiple jurisdictions. Typically, a new entity or a
19 new public entity that comes on board has the ability
20 to go out, condemn the resources, and bring everything
21 on at one time. Tribal utilities do not enjoy those
22 same benefits. We have competing jurisdictions. We
23 have numerous things that we have to deal with and to
24 overcome that do not allow us to bring all of our loads
25 on at one time.

1 So when we initially signed up for the
2 42 megawatts of power, it was to bring on the entire
3 Reservation and to provide those benefits from the
4 public system to the whole entire Reservation. And we
5 have to do that in phases because of existing policies.

6 MR. KOLEVAR: Ray, if I could follow-up.

7 To clarify further, as I understand it -- and
8 I'll tell you we see a lot of benefits to encouraging
9 the formation of tribal utilities; there's tremendous
10 upside. But as I understand it, and perhaps I'm
11 missing something, some of the biggest barriers to that
12 exist well outside of BPA. In fact, I don't understand
13 yet what BPA's barrier is to that. They would be where
14 the assets would be drawn from and perhaps Department
15 of Interior, BIA responsibilities with respect to
16 tribes.

17 MR. WISEMAN: Well, that's partially
18 correct. I mean, if you -- just for one example,
19 Bonneville has a right-to-serve issue as part of their
20 standards for service. Under that, tribes would have
21 to obtain, via Bureau of Indian Affairs, support in
22 order to file a condemnation action in order to secure
23 the assets from the existing utility.

24 Bonneville's well aware, on the renewal of
25 their right of ways, they've been waiting 15 years to

1 get theirs renewed. Tribes don't have that kind of
2 time, especially when we're talking about three years,
3 say, in order for the new Regional Dialogue to take
4 effect. We don't have that kind of time in order to
5 fully implement what we originally set out to do, and
6 that is to serve the reservation.

7 So all we're asking for is that there is
8 policies in place that allow the tribal utilities to
9 grow into the load that they initially signed up for.

10 MR. KOLEVAR: Have comments to this
11 effect, very specifically what BPA has to do, been
12 submitting to BPA?

13 MR. WISEMAN: Yes.

14 MS. SCHAFF: May I also supplement that,
15 Ray?

16 One of the things in the proposal that we have
17 problems with is that there are some unattainable
18 deadlines. There's a three-year notice requirement,
19 for example, and you can't necessarily say, Well, in
20 three years, we're going to have something done that
21 we've been working with the local serving utility and
22 the State that has to allow them to transfer facilities
23 and BIA. You can't necessarily give us a three-year
24 notice period.

25 The other thing is that Bonneville has

1 standards for service that require that for a load to
2 be served by a tribal utility, the tribal utility has
3 to own the facilities. And oftentimes, the facilities
4 are used to serve not only tribal loads but other
5 loads. And so the ownership, then, of the facilities
6 creates a requirement to have redundant facilities. We
7 have to go out there and build a redundant line to
8 bring power in. If the standards for service were
9 changed to allow some kind of a sharing of facilities,
10 it would make things much easier.

11 The other thing, as I mentioned before, we are
12 concerned that there is going to be an insufficient
13 amount of power over the 20-year period to allow
14 utilities that might want to form in 15 years if the
15 amount of power is used up. And that can be used up by
16 anybody.

17 If the City of Portland becomes a public
18 utility, that could very well be used up in early
19 times. And then there are also a number of cities in
20 Montana that could decide to become utilities, and
21 basically that amount of power that's allocated would
22 be gone.

23 And then the other issue is just exactly how
24 they're setting the high-water marks, meaning that the
25 high-water marks are set at a certain time and place.

1 And the amount of load that you're serving at that
2 place would be your high-water mark, meaning that any
3 of your load growth beyond that would be at the Tier II
4 rate, which is the higher rate.

5 So those are some of the particular things
6 we've identified in our comments that the proposal
7 could be improved upon.

8 MR. HILL: Ms. Schaff, you'd said that
9 if -- I think I wrote this down right. If the capacity
10 of the system is determined before the biop is
11 finalized, then we've got a problem, in a nutshell. I
12 think that's right. Is that what you said? And if so,
13 what are we going to do about that?

14 MS. SCHAFF: Well, I think it could be a
15 problem. If the biological opinion comes back and says
16 that the river has to be operated differently, it could
17 change the amount of federal based power that's
18 available. And if the amount of the power is promised
19 before that happens, there just could be some kind of
20 an issue over time.

21 And maybe, Charles, I could let you -- he's
22 more the fish expert rather than I am. Do you have
23 anything to add?

24 MR. HUDSON: Well, that's accurate. And
25 I'm not quite certain of the time schedule, but there

1 is active biop litigation. Among them is water, from
2 where, and how?

3 MR. HILL: We're intimately familiar with
4 the litigation. I just -- I just didn't know what
5 the -- I mean, I recognize the potential issues. My
6 question is, Okay, so what do we do about that?

7 MS. SCHAFF: I'm not really sure. I'm not
8 really sure. I am less familiar with the actual
9 litigation, but I think that there could be some kind
10 of flexibility built in based on the outcome of the
11 litigation.

12 MR. HILL: Mr. Wiseman, you'd mentioned
13 something about assurances that Bonneville had provided
14 maybe back in 2001. Assurances about what? And what
15 were the assurances that affect anything right now?
16 I'm just not familiar with them.

17 MR. WISEMAN: Originally, when they began
18 the deregulation, the tribe was approached to form a
19 utility so that they could basically provide and
20 benefit from the federal system and be able to provide
21 low-cost power to the Reservation. And the tribe
22 signed up for a contract and signed up a contract for
23 42 megawatts to do just that.

24 Getting into that and trying to actually form
25 the utility and not being able to take and serve the

1 entire Reservation at once and now trying to basically
2 get to that point where we wanted to be, and that's to
3 serve the Reservation, then we find ourselves in a
4 little bit of a pickle.

5 We know where we want to go. We know what the
6 whole intent was in order to sign the contract. And
7 now, we're trying to figure out how we can get there
8 from where we're at.

9 MR. NORMAN: Other questions, folks?

10 MR. SELL: Can I -- I don't understand
11 David's question. So your theory is, under the new
12 long-term contracts, you won't have the commitment of
13 42 megawatts at the Tier I rate going forward?

14 MR. WISEMAN: That's correct. If you read
15 the contracts and look at the proposal, they would set
16 a high-water mark based on 2009-2010 loads, and that's
17 basically where we're at today. So anything that would
18 be served beyond that point would be at Tier II. And
19 that could cost the tribe up to \$16 million a year in
20 additional power costs, which basically would mean that
21 we wouldn't be able to expand the utility because we
22 wouldn't be able to compete.

23 MR. HILL: But isn't that the whole idea
24 behind a high-water mark? I mean, it's spread out
25 between various customers at one particular time. I

1 mean, if everybody got to basically move beyond the
2 high-water mark in future years, the whole thing -- the
3 whole idea of tiered rates breaks down, doesn't it?

4 MR. WISEMAN: Well, we agree with that.
5 But also part of the problem is Bonneville and the
6 federal government and the treatment of the tribes on
7 how they can establish those utilities when they can
8 basically come out and say that we have to start and
9 form on trust lands, which are fractionated and
10 checkerboarded in western reservations.

11 You have trust land, fee land, and all the
12 different types of jurisdictions. You can't get from
13 Point A to Point B without crossing one of those
14 jurisdictions. And every time we do, we have to go to
15 a competing jurisdiction in order to get approval.

16 Those things are never considered when we
17 first started up with this particular proposal. Those
18 policies just aren't in place. It's new. It's not
19 something that was every anticipated when Bonneville
20 first started these particular contracts. I don't
21 think anybody understood the difficulties that were
22 going to be in place in trying to actually form a
23 tribal utility.

24 MR. NORMAN: Other thoughts? Okay, thank
25 you very much.

1 While we get started with the public interest
2 panel, I'd appreciate it if the state reps panel could
3 come up and occupy this table.

4 The next panel is another small one, Sara and
5 Jason. And Sara, we'll start with you.

6 MS. PATTON: Thanks, Paul. Good
7 afternoon. I'm Sara Patton. I'm the executive
8 director of the Northwest Energy Coalition, which is a
9 regional alliance of more than a hundred nonprofit
10 organizations, utilities and business committed to a
11 clean and affordable energy future for the people and
12 businesses of the Northwest.

13 Since our inception 25 years ago, the
14 Coalition has worked closely with the Bonneville Power
15 Administration and with the Northwest Power and
16 Conservation Council to further the development of the
17 region's great energy efficiency and renewable energy
18 resource potential and to mitigate the damage done to
19 salmon and other wildlife by the federal hydro system.

20 And I do know that the first executive
21 director of the Northwest Energy Coalition, Mark Reese,
22 is now in charge of the airport for the Port of
23 Seattle, which is a wonderful thing to aspire to.
24 Unfortunately, it doesn't mean that I get cheap parking
25 rates in the garage.

1 But our Coalition was founded to further the
2 goals established by the U.S. Congress in 1980 with the
3 Northwest Power and Conservation Act. The Act makes
4 Bonneville responsible for meeting publicly owned
5 utility's load growth. The Act specifically directs
6 Bonneville to meet those needs first by requiring
7 cost-saving energy efficiency together with
8 cost-effective renewables such as wind, solar, and
9 biomass before looking at any fossil fuels.

10 In fact, BPA has played a key role in the
11 acquisition of cost-effective energy efficiency and new
12 renewable energy projects. Bonneville has used its
13 ideal position as provider of nearly half the region's
14 electricity and operator of nearly three-quarters of
15 the region's high voltage transmission lines to help
16 bring clean and affordable energy to all of the people
17 and the businesses of the Northwest.

18 The Northwest Energy Coalition strongly supports
19 Bonneville's efforts to promote the development of
20 renewable energy through its transmission system both
21 in its transmission products and pricing and in the
22 construction of new lines.

23 I wish I could say that the Regional Dialogue
24 proposal now before us will advance the goal of clean
25 and affordable energy. But that may not be the case.

1 BPA has proposed a significant change in direction that
2 could undermine both the letter and spirit of the
3 Federal Power Act.

4 As currently written, the Regional Dialogue
5 transfers load growth responsibilities to the utilities
6 themselves but not the Power Act's priorities for
7 meeting that growth. Without a specific obligation to
8 make clean energy first priority, utilities may make
9 short-term decisions causing long-term economic harm to
10 energy consumers.

11 The Regional Dialogue's allocation of the
12 federal system is unacceptable without a specific
13 comprehensive program that's both reliable and funded
14 for accommodation of BPA's stewardship
15 responsibilities, including energy efficiency, new
16 renewable resource development, and an adequate power
17 supply.

18 The Coalition has put forward specific
19 amendments to the Regional Dialogue proposal to protect
20 innocent consumers and uphold the legal
21 responsibilities detailed in the Northwest Power Act,
22 and I want to talk about just a couple of them.

23 First, the Regional Dialogue presents a great
24 gift to public utilities in the Northwest.

25 Twenty years of affordable federal power, enough to

1 meet the majority of their power needs. If the quid
2 pro quo -- as the quid pro quo for this resource,
3 utilities must commit to meeting additional needs in
4 the way Bonneville would be required to, first with
5 energy efficiency and second with cost competitive
6 renewable energy. That commitment must be written into
7 each utility's power purchase contract with BPA.

8 Second, the Regional Dialogue gives
9 Bonneville's utility customers the option of asking
10 Bonneville to meet their load growth with market-price
11 based Tier II products. For those utilities opting to
12 meet their recommendations in this way, BPA should
13 offer only an all-conservation and renewables package
14 of resources. A clean energy-only Tier II product is
15 necessary to meet the legally binding priority
16 directive of the Northwest Power and Conservation Act.

17 Third, cycles of over and underdevelopment
18 have been hallmarks of deregulation schemes around the
19 country. Shifting Bonneville's load growth
20 responsibilities to its utilities compounds the
21 problem, raising the real possibility that, as in the
22 2000-2001 energy crisis, resources will not be
23 developed in time to present emergency declarations to
24 keep the lights on at the expense of salmon
25 restoration.

1 To prevent these boom-and-bust cycles and
2 emergencies that endanger fish, the contracts between
3 BPA and its utilities should require that each utility
4 acquire adequate resources by adhering to the resource
5 adequacy standards developed by the Council and
6 Bonneville. Bonneville must incorporate the resource
7 adequacy requirements firmly into the Regional Dialogue
8 proposal and into the 20-year power sales contracts.

9 Fourth, Bonneville is making a commitment to
10 require all of the conservation and renewable energy
11 resources identified for it by the Council's fifth
12 power plan. Bonneville will have to use its economies
13 of scale and market savvy to meet this noteworthy
14 commitment.

15 To facilitate this effort, BPA should exact a
16 specific commitment from each utility buying federal
17 hydropower that it will acquire all of the available
18 cost-saving energy efficiency in its service territory.

19 We applaud Bonneville's proposal to reserve
20 some capacity flexibility for the Agency, rather than
21 giving it away to the customers who purchase this large
22 product. This reservation gives BPA the flexibility it
23 needs for new resource integration and fish and
24 wildlife programs.

25 Fifth, Bonneville Council on Regional

1 Stakeholders has been working to identify and overcome
2 barriers to integration of new renewable resources into
3 the grid. We appreciate those efforts and urge
4 Bonneville to incorporate specific recommendations of
5 these integration committees into its proposal.

6 In conclusion, we acknowledge that BPA has
7 proposed a major change in the way it serves the
8 region's energy needs. Done wrong, the new scheme puts
9 us at risk for a dirty and expensive energy future. We
10 believe the improvements and safeguards we have
11 suggested are critical to avoiding these risks.

12 Thank you for the opportunity to provide these
13 comments.

14 MR. NORMAN: Thanks, Sara. Jason?

15 MR. EISDORFER: Thank you, Paul.

16 I'm Jason Eisdorfer, attorney for the
17 Citizens' Utility Board of Oregon. State law grants us
18 statutory standing in front of state agencies and state
19 courts to represent utility customers of investor-owned
20 utilities, telecom and energy.

21 While rates are a fundamental aspect of what
22 we do, our board also sees fit to advocate for good
23 energy policy and, therefore, rates are not the only
24 issue we look at. We look at environmental stewardship
25 and equity issues as well.

1 I guess I'm the poster child of the public
2 interest group that can't make it to Washington that
3 often. So people say that they're appreciative of your
4 presence here today; no one is more appreciative than I
5 am.

6 Let me address the long-term nature of the
7 Regional Dialogue. I think everyone in the room feels
8 that there is some value to having this long-term
9 settlement of issues. My fear is that its focus on the
10 long-term may -- I think the proposal may end up
11 trading away balance for longitude. And I say that
12 because many of the interests that I hold dear seem to
13 have taken a beating in the proposal.

14 As much as I dread doing this, I need to drag
15 you back to the residential exchange. The exchange, I
16 think, as you've noted, is one of those issues that we
17 have been debating for some time in the Northwest. The
18 Dialogue -- the Regional Dialogue proposal, I think,
19 could have gone a long way toward resolving that issue
20 over the next several decades. I guess I'm
21 disappointed that, in the proposal, that did not
22 happen. I think that those disagreements will
23 continue.

24 And I'm having trouble living with -- and I
25 don't know how I can explain to IOU customers in

1 Oregon, much less 60 percent of us throughout the
2 Northwest, that this Dialogue proposes a rate increase
3 on the investor-owned utilities, residential and small
4 farm customers, to further guarantee the benefits of
5 the Columbia River system to the consumer-owned
6 utilities.

7 Further, I would say that a decent
8 professional prognostication of the energy markets
9 would indicate that the value of the Columbia River
10 system in the federal based system as against the
11 market will only get larger over time. You know, peak
12 oil may not be seen in market rates now, but it very
13 well may be in 2020 as the federal government,
14 certainly as the state governments, begin to take up
15 carbon as an issue. There's -- there are a number of
16 reasons to believe that the value of the Tier I will
17 only increase. And to begin that process with lower
18 benefits than we've had historically is something that
19 is difficult to swallow.

20 On top of that, the Tier I allocation proposal
21 essentially makes moot the formation of new publics in
22 the Northwest. This is a long-standing right and
23 assumption that if utility customers are unhappy with
24 investor-owned utility, they can form a public and
25 access PF rates from Bonneville. That's largely gone

1 as I think you were discussing earlier. So with that
2 gone and the diminution in value of the residential
3 exchange, the fairness and balance that we were talking
4 about earlier today, I think, is lost.

5 I have two other issues I do want to mention.
6 The first one is one that Sara just addressed ably.
7 It's energy efficiency and renewable energy and the
8 stewardship and obligations that Bonneville has had for
9 25 years and has done a good job under that
10 stewardship.

11 Going forward through this Regional Dialogue,
12 however, there is a lack of specificity with regard to
13 energy efficiency and renewable energy. Unlike the
14 highly detailed discussion of Tier I issues, what we
15 get with regard to energy efficiency and renewable
16 energy is vague at best.

17 This is an important issue for investor-owned
18 utility customers. IOUs go through and integrate the
19 resource planning process where they are looking at
20 load and resources and examine renewable energy and
21 energy efficiency as primary resources. And if we are
22 doing our part in the Region and the customer-owned
23 utilities are falling down on that obligation, that
24 makes for a less stable energy market in the Northwest
25 .

1 It's our opinion that energy efficiency and
2 renewables ought to be the foundation of any
3 independent energy strategy because these investments
4 are the most local and most domestic of the resources
5 that we know of.

6 The final issue I just want to touch on is one
7 that I don't think anyone's really talked about very
8 much. And it's resource adequacy. Philosophically, it
9 sounds like there is a lot of approval for the concept
10 that consumer-owned utilities begin planning for their
11 own loads under Tier I.

12 I think there's a practical reality, however,
13 that we are unleashing in the market a number of
14 utilities, a sizeable number of utilities that have not
15 had that obligation in the past. There is always the
16 fear that they will spend too much and acquire too
17 much. But I think the bigger fear for the
18 investor-owned utility customer is that traditional
19 obligations of the customer-owned utilities require too
20 little.

21 The Northwest Power and Conservation Council
22 has formed a resource adequacy group and has come up
23 with an essentially voluntary measure that the State
24 regulators of investor-owned utilities will no longer
25 allow investor-owned utilities to not have some

1 planning margins in their IRPs. And we won't let the
2 State regulators not allow the IOUs to do that.

3 There is a fear of a cost shift if the IOUs
4 are, frankly, with their customer's money, going out
5 and acquiring resources to meet some reasonable
6 resource adequacy at 12 or 15 percent. And
7 customer-owned utilities with this new obligation and
8 some uncertainties there may not -- either consciously
9 or unconsciously, may not meet their own obligations.
10 This would ultimately end up in a cost shift.

11 So those are the issues I wanted to raise.

12 MR. NORMAN: Thanks, Jason. Questions for
13 this panel?

14 MR. SELL: Sara, if I understand one of
15 your points correctly, it's you would like, in these
16 long-term contracts, for BPA to extend or assign its
17 clean energy obligations, to transfer those to the
18 utilities.

19 MS. PATTON: That's correct.

20 MR. SELL: And I guess that presents two
21 concerns to me which may or may not be appropriate.
22 And that's what I'd like you to address. One, to the
23 extent we are seeking long-term certainty, does not
24 further encumbering these contracts operate
25 to -- against that goal?

1 And, secondly, are there not other more
2 appropriate forums to impose these obligations on the
3 utilities?

4 MS. PATTON: The first answer is I think
5 that the -- actually having a quid pro quo because this
6 is an enormous benefit, that of having a 20-year
7 commitment of the Federal Columbia River Power System
8 at cost. With no more questions, it's a huge benefit.

9 And if you have a responsibility to follow the
10 mandates of the Act actually increases the certainty
11 because you know what you're supposed to be doing in
12 carrying out that mandate. So I think that that -- I
13 don't see that it does, in fact, cause more
14 uncertainty. I think it could cause less uncertainty.

15 In terms of other forums for the potential for
16 this kind of situation, there are plenty of others.
17 The State of Washington just approved an initiative
18 requiring utilities with 25,000 customers or more to do
19 that -- basically, rely, in part, on energy efficiency
20 and renewables. That doesn't cover everybody in the
21 region. And it certainly doesn't cover a number of
22 Bonneville's customers who are smaller, smaller
23 utilities than that. So I think that Bonneville has a
24 unique role.

25 And it doesn't have to have exclusive

1 requirements here. They can work together with other
2 requirements to make sure that we have the clean and
3 affordable energy future that we have mandated in the
4 Northwest Power Planning and Conservation Act.

5 MR. HILL: Can I follow-up on that point?
6 I think I heard you say that you thought there should
7 be -- well, I think I heard you say that the Tier II
8 product should be a clean energy-only product.

9 Do you think that should be the only Tier II
10 product or that should be a Tier II product?

11 MS. PATTON: We think that there's excellent
12 evidence that we can meet all of the load growth of
13 this region with energy efficiency and renewable
14 energy. There's a great deal of evidence from studies
15 commissioned by the Energy Coalition and by the Rand
16 Corporation and by the fifth power plan of the
17 Northwest Power and Conservation Council.

18 And with the requirements on Bonneville,
19 first, in cost-effective energy efficiency and, second,
20 in cost-competitive renewables, that means that Tier II
21 should be all energy efficiency and renewable. If you
22 can meet all the load growth, especially all the load
23 growth -- Bonneville's not going to be required to meet
24 all load growth but only that which its required to,
25 then it seems quite obvious that it should be making

1 all of Tier II come out energy efficiency and
2 renewables.

3 MR. HILL: But I guess if, let's say,
4 that -- well, what would you consider to be clean
5 energy resources? Just --

6 MS. PATTON: Energy efficiency and --
7 which is a huge amount of what's available and which
8 Bonneville has been very successful, in fact, acquiring
9 over the last 25 years.

10 MR. HILL: Right. But that's energy
11 efficiency.

12 MS. PATTON: And that's first.

13 MR. HILL: What about actually things that
14 produce electricity?

15 MS. PATTON: Well, wind, solar, biomass,
16 geothermal, all of those renewable resources, obviously
17 each one has to be site specific. And that's typical
18 of any generation. I'm not going to say that all wind
19 and all biomass is clean. But we're talking about
20 environmentally balanced renewable energy.

21 And those are -- the studies that have been
22 done limit the availability of cost-competitive
23 renewables to environmentally sound ones.

24 MR. HILL: If Bonneville said that it was
25 going to have a Tier II product that was only going to

1 be what it would consider to be a clean energy product
2 and it would be only renewables and that was going to
3 come in at \$35 a megawatt-hour, and somebody else said,
4 Hey -- you had an IPP came in and said, I'll build a
5 natural gas firing facility and I'll sell it to you for
6 30 bucks a megawatt-hour.

7 MS. PATTON: I'd ask what they're smoking,
8 first. Actually, it's the priorities of the Act. And
9 I'm basing my --

10 MR. HILL: But my question is: Wouldn't a
11 customer -- what would the customer do?

12 MS. PATTON: Well, the customer who wants
13 to rely on natural gas should just go buy it from that
14 natural gas person, I'm sure, and not bring Bonneville
15 into it.

16 But the priorities of the Act are pretty
17 specific. They don't actually say that you absolutely
18 take all the energy efficiency and renewables before
19 you take any thermal plant. They say that you take
20 cost-effective conservation and that you take
21 cost-competitive renewables and then you get to
22 thermal.

23 And what I'm telling you is that the current
24 state of knowledge is that there's plenty of
25 cost-effective conservation, cost-competitive

1 renewables to meet all load growth in the region and
2 that Bonneville should be able to make that all of its
3 Tier II.

4 MR. HILL: Can I ask Mr. Eisdorfer one
5 question?

6 Is your point on the residential exchange
7 program that it basically needs to provide more money
8 to the IOUs?

9 MR. EISDORFER: In a word, yes. I
10 rarely --

11 MR. HILL: You can stop there.

12 MR. EISDORFER: I rarely stop there. If I
13 can answer. I want to be real honest with you guys.
14 And sort of take a crack at answering the question,
15 Mr. Hill, that you asked of the IOU panels, What can
16 you do to facilitate settlement? And you are urging us
17 correctly to settle. I think that failure to settle
18 this issue opens up a whole host of unpleasant
19 scenarios. And I'm not in those settlement
20 discussions. They're left up to the IOUs on their own
21 behalf and the customer-owners. And I too would urge
22 the parties to settle this.

23 But I want to prepare you for no settlement.
24 It's not as if we are trying this for the first time.
25 We've been doing this over and over and over again.

1 And we can all make our arguments. It's
2 increasingly clear to me that we're sort of stuck in a
3 place. I think I'll say that the Regional Dialogue
4 tends to set a cap in its proposal that the
5 consumer-owneds are not particularly willing to go
6 over. So that was not particularly helpful.

7 But ultimately, if we can't settle this issue,
8 we'll come back to you.

9 MR. HILL: I mean, my point, when it came
10 to the residential exchange program, is just, you know,
11 it'll get decided. The question is: Does it get
12 decided by the people who it effects or will it get
13 decided by other people? And it's a question about who
14 you want to put your faith in the hands of.

15 MR. NORMAN: I should have said earlier,
16 David, that Al Burns and I have offered bake cookies
17 for the next negotiating session, if that'll help.

18 Other questions for these folks?

19 MR. HILL: Maybe that's what discouraged
20 them, Paul.

21 MR. NORMAN: Quite possible.

22 MR. WRIGHT: Sara, actually, I have a
23 question.

24 We have been doing a lot of work on clean
25 integration, and I think one of the issues that we're

1 running into is the lack of capacity associated with
2 wind. And it may be that in order to have a wind
3 resource available for Tier II, you have to have some
4 peaking capacity available with it which may not be a
5 renewable resource. But it may be the way to be able
6 to market wind and be able to get it to a point where
7 customers are prepared to buy it.

8 Have you thought about that and the
9 implications with respect to whether that will be
10 viewed as a clean energy alternative?

11 MS. PATTON: I know that one of the issues
12 has got to be looking at all the ways there are to firm
13 wind in the region. And they include obviously the
14 much -- the much-touted ability of the hydro system to
15 do that. And when we talk about the hydro system, we
16 need to be talking about the whole hydro system and not
17 just Bonneville's hydro system, the fact there's
18 capacities of hydro -- that there are reservoirs in
19 British Columbia and reservoirs that investor-owned
20 utilities and publicly owned utilities own that should
21 also be thought about as ways to affirm wind.

22 Before we talk about any kind of fossil fuel
23 and affirming wind, we also need to look at the
24 experience of wind development. We're sort of lucky --
25 unlucky that we're still in development but lucky

1 because we get to rely on some of the experience
2 elsewhere in which we've seen geographically disbursed
3 wind be able to affirm other wind.

4 And we have to look at the potential for
5 geothermal plants and other potential renewables to
6 affirm wind before we look at fossil fuels, because we
7 all understand the problems with fossil fuel
8 generation.

9 MS. KOLEVAR: Sara, if I could follow-up
10 on that. The part of this that I wrestle with is the
11 appropriateness of putting this burden upon BPA to
12 essentially push into the utilities. And it seems to
13 imply that the RPS that Washington has adopted and
14 California's adopted -- I understand Oregon is moving
15 in a direction where they may do the same -- but it
16 seems to imply that those State efforts are not
17 sufficient and that -- so then it makes me jump to the
18 next question, which is, Have your States come to
19 different conclusions about the sufficiency of
20 renewables to meet load growth -- in and of themselves
21 to meet load growth over the next 20 years?

22 MS. PATTON: Well, you'll be able to talk
23 to the State regulators and members of the Power
24 Council in a minute.

25 MR. KOLEVAR: Good point. I'll ask them

1 as well.

2 MS. PATTON: You can ask them that.

3 But I would say that both the Oregon standard
4 already in effect through Senate Bill 1149 does not
5 cover publicly owned utilities. It covers
6 investor-owned utilities and --

7 MR. KOLEVAR: And I appreciate that. But
8 as I look at that and understand it, it's really a
9 push-pull scenario where you're pushing on IOUs and,
10 through that, pulling on the others, the noncovered
11 entities because you're essentially creating a market
12 for these renewable -- for renewable electricity and to
13 the extent that IOUs are challenged to do that, then
14 others can step up and meet that demand.

15 So because it does not cover everybody does
16 not necessarily mean that that standard is not met.

17 MS. PATTON: No. But we're looking at the
18 situation in which we've got excellent information from
19 the Power and Conservation Council, from Rand
20 Corporation, from other studies, that shows that
21 there's plenty of potential. And yet the integrated
22 resources plans for the utilities we're seeing do
23 include nonrenewable resources in them.

24 So that, you know, that has to look -- we have
25 to look at that and say, Why is that and what should we

1 do about it? And certainly things like the energy
2 efficiency and renewable portfolio standard are
3 important aspects of that.

4 But the reason to ask Bonneville to do it is
5 because Bonneville -- if Bonneville were not making
6 that rather large change in its role, it would already
7 have the responsibility for the publically owned
8 utilities to invest in renewable energy and energy
9 efficiency.

10 MR. SELL: Thank you.

11 MR. NORMAN: Thanks a lot. The last panel
12 is representatives of the four Northwest states. And
13 we're going to start with Paul Kjellander from Idaho.

14 MR. KJELLANDER: Thank you, Paul.

15 I'm Paul Kjellander, the president of the
16 Idaho Public Utilities Commission, and today, I'll be
17 representing the State of Idaho on behalf of Governor
18 James Risch. The comments that I'm going to offer
19 today hopefully will be brief. I've been able to trim
20 quite a few of them down because, as I looked at them,
21 surprisingly, they match up fairly well with what you
22 heard earlier from the investor-owned utilities.

23 And there's a reason that Idaho's comments
24 related to the residential exchange program fall into
25 close alignment with the investor-owned utilities. And

1 that's because nine out of ten customers served in the
2 State of Idaho are served by investor-owned utilities.

3 Currently, residential and small farm
4 customers in our State receive a share of the
5 approximate \$300 million in annual benefits under the
6 program that we lovingly refer to as the residential
7 exchange program.

8 These benefits flow directly to customers
9 providing a substantial reduction in electric bills,
10 and, in Idaho, the most significant level of those
11 benefits flows to customers of Rocky Mountain Power,
12 which was previously known as PacifiCorp and Utah
13 Power, and that's on the eastern side of the state.
14 Also the same side of the state that gives the State of
15 Idaho its moniker of "Famous Potatoes." So when we
16 talk about the residential exchange program and what
17 that means to irrigators, what we're talking about is
18 the State's potato crop.

19 Unless Bonneville modifies its proposal, the
20 investor-owned utility, residential and small farm
21 customers will face significantly higher electric bills
22 beginning in 2012. The State regulators and
23 investor-owned utilities are not asking for an increase
24 in customer benefits. They are simply, instead, asking
25 that these benefits not be reduced.

1 Counting for inflation in the load growth,
2 Bonneville would need to provide these customers with
3 at least \$350 million in 2012 simply to maintain the
4 current level of benefits. At the very least, it's our
5 position that those benefits at the current
6 \$300 million level should be maintained going forward.
7 The \$250 million proposal by BPA that's on the table
8 today is simply, in its current form, unacceptable.

9 To elaborate on a previously mentioned
10 concern, residential and irrigation customers of Rocky
11 Mountain Power in Southeast Idaho would be particularly
12 hard hit by BPA's proposed changes to the residential
13 exchange program. Under the current allocation
14 formula, the impact of Bonneville's proposal would
15 result in, at a minimum, a 12.5 percent bill increase
16 for Rocky Mountain Power's irrigation customers and a
17 five and a half percent increase for residential
18 customers in 2012. Under BPA's proposed allocation,
19 these projected increases could possibly more than
20 double.

21 Previously, the Pacific Northwest State
22 Utility Commissioners issued a joint letter to BPA,
23 which I signed, echoing many of the sentiments that
24 I've just shared with you. Additionally, in that
25 letter, the four state commissions offered to assist

1 BPA in the allocation process if a reasonable
2 settlement can be reached. Today, I'm affirming the
3 four state commissions' willingness to assume
4 allocation responsibilities should a reasonable
5 settlement be reached.

6 As an additional comment, I want to share a
7 paragraph of a letter written by Idaho Governor James
8 Risch and sent to BPA in August. In that letter,
9 Governor Risch writes, At this time, Idaho would like
10 to reiterate support for the federal law requirement
11 that residential and small farm customer served by BPA
12 through investor-owned utilities have the right to
13 share in the benefits of the federal hydro system
14 administered by the Bonneville power system. Sharing
15 of the benefits occurs through the residential exchange
16 program and through benefits provided to investor-owned
17 utilities. Idaho has always supported the sharing of
18 benefits derived from the federal hydro system with
19 participants within the region. It is the policy of
20 the State to share in the problems and costs of the
21 system, including endangered species, request for flow
22 augmentation water, and operational changes for the
23 endangered salmon and steelhead. Concurrently, we
24 should also share in the benefits.

25 This paragraph raises, I think, a very

1 fundamental question. With the current residential
2 exchange program proposal adversely affecting the
3 majority of Idaho citizens, the question simply is:
4 What incentive does the State of Idaho have to work
5 with BPA to resolve future issues that emerge within
6 the Columbia River Basin system under the current
7 proposal that significantly reduces our benefits?

8 So in closing, I'd simply like to say that,
9 while we recognize that the \$250 million proposal that
10 was initially set out is, at least in our perspective,
11 part of the reason that a settlement hasn't been easy
12 to achieve because it sets the bar at that cap and made
13 it difficult to move away from that at least to a level
14 which we perceive to be fair, just, and reasonable
15 going forward, which was \$300 million.

16 That said, we do think there is the
17 possibility of continued discussions and possibly some
18 creative measures with Bonneville's assistance to try
19 and come to a figure that may get us closer to the
20 \$300 million level and may well satisfy many of our
21 concerns. I think that, at least today, we are
22 somewhat optimistic that something going forward can
23 come closer to meeting the needs that we've at least
24 addressed in some of the previous comments that we've
25 shared with Bonneville and with you here today.

1 So I thank you.

2 MR. NORMAN: Thanks much, Paul. We're
3 still missing Bruce. He's on his way. So we'll skip
4 to Mike Carrier.

5 MR. CARRIER: Thank you.

6 I was sitting here feeling like someone who's
7 about to paint a wall that's been painted ten times
8 today, all shades of white, and I've got an off white
9 color I'm going to paint the wall. But then I just
10 heard Idaho's testimony, and I'm filled with great
11 hope. Anytime Oregon and Idaho can be mostly on the
12 same page, it inspires me. And some of my comments
13 will be very similar to Idaho's comments. But there
14 are three issues.

15 First, let me introduce myself: Mike Carrier,
16 I'm Governor Kulongoski's natural resources policy
17 director.

18 I know that Steve had great trepidation when
19 he saw me walk in today because he thought I was going
20 to say something outrageous like, I just think you
21 should all pay a lot more for energy, we should produce
22 less energy, and we should give it all to fish. I'm
23 not going to say that, Steve, or nothing close to that.
24 But I am going to talk about fish.

25 We appreciate the opportunity to address you

1 today and we have basically three issues that we want
2 to talk about. The first is fish and wildlife. The
3 protection and restoration of fish and wildlife in the
4 Columbia Basin are vitally important to Oregon and to
5 the Northwest. Not just to our quality of life and not
6 just to our sovereign tribes, but it's an important
7 sector of our rich and diverse Northwest economy.

8 Thus, BPA's decisions on how it will market
9 power and allocate costs and benefits in the federal
10 system must ensure that the Agency will always be able
11 to fund the needed fish and wildlife programs submitted
12 to and obligated to even under poor hydro conditions.

13 We believe that providing adequate funding for
14 fish and wildlife programs is an implicit goal of this
15 Dialogue, and we must not lose sight of that goal.

16 Secondly, I want to talk about conservation of
17 renewables. We laud BPA for its continuing commitment
18 to achieving conservation and developing renewable
19 resources. We support BPA in its commitment to ensure
20 that the share of the regional council's conservation
21 target associated with Tier I loads is acquired via
22 renewables.

23 BPA should not reduce the utilities' rights to
24 low cost federal power because the utility achieves
25 conservation and reduces loads. And in particular, BPA

1 should strive to hold utilities harmless for any
2 cost-effective conservation acquired before high-water
3 marks are established in 2010.

4 BPA should help utilities meet their renewable
5 resource goal by making a renewable product available
6 for Tier II loads. And before you ask the question, I
7 can't answer whether we're talking about a hundred
8 percent, but I think it's an achievable goal. And it's
9 a good goal to have.

10 And, finally, we commend BPA and the regional
11 council for their efforts to find ways to keep down the
12 cost of integrating large demands of wind energy into
13 the system.

14 Now, finally, with regard to the allocation of
15 federal system benefits, my comments will largely
16 mirror those of Idaho. Without an adequate allocation
17 of federal system benefits to the residential and small
18 farm customers and investor-owned utilities, Governor
19 Kulongoski cannot support BPA's Regional Dialogue
20 proposal. BPA's current proposal will harm nearly
21 75 percent of Oregon's citizens who are served by IOUs,
22 and this is not acceptable, especially when, at the
23 same time, BPA is proposing greater benefits for public
24 Agency customers.

25 At a minimum, the allocation for IOU customers

1 should be no less than the current level of the
2 benefits. BPA's proposal reduces that level -- and
3 it's been stated many times today -- from the
4 300 million to 250 million beginning in 2012.

5 BPA's proposal sought a 4 to 5 percent
6 increase to residential customers of Oregon's largest
7 IOUs. Governor Kulongoski fully supports the
8 recommendations of the public utility commissions that
9 Paul talked about, the report on four states, to set
10 the level of IOU customer benefits at a level that is
11 roughly equivalent to today's dollars of spending
12 power.

13 In conclusion, we just want to say, we know
14 how difficult it is craft a proposal that meets
15 multiple and often conflicting goals that we have for
16 the federal power system. But because those decisions
17 have important and far-reaching impacts on the entire
18 region and our future, it's imperative that we get it
19 right. And we thank you for coming today and helping
20 us get it right.

21 MR. NORMAN: Thanks, Mike. Tom?

22 MR. KARIER: Good afternoon. I'm Tom
23 Karier. I'm Washington's representative on the
24 Northwest Power and Conservation Council and its
25 current chair. I'm here today on Governor Christine

1 Gregoire, the Governor of Washington, and I'd like to
2 echo the gratitude that others have expressed: Thanks
3 for coming to the Northwest.

4 The Governor expressed her views on the
5 Regional Dialogue in a letter on November 1st to Steve
6 Wright, this year. I'm going to paraphrase some of the
7 major points, and then I'll make sure that you get a
8 copy of the complete letter.

9 The Governor maintains that a regional
10 agreement that leads to 20-year contracts along the
11 lines of Bonneville Power Administration's Regional
12 Dialogue holds the promise of considerable value to the
13 Pacific Northwest region and to Washington State. A
14 regional agreement will provide certainty and
15 predictability that the Northwest electric power system
16 needs.

17 In addition to supporting this effort, the
18 Governor offers specific comments intended to improve
19 the proposed set of policies, and I'll summarize. The
20 Regional Dialogue solicited comments on the President's
21 budget proposal that would require Bonneville to
22 accelerate federal debt payments under certain
23 conditions. Because the President's budget proposal
24 stands at odds with a key Bonneville goal, it should be
25 removed from the proposal for the long-term contracts

1 with BPA.

2 Specifically, the President's budget proposal
3 undermines the certainty that Bonneville will be able
4 to make treasury payments and does so by reducing the
5 Bonneville financial reserves required to make treasury
6 payments during drought years. The proposal, if
7 enacted, would make it more difficult for Bonneville to
8 achieve its goals of maintaining low cost and low
9 rates. Analysis by the Northwest Power and
10 Conservation Council indicates that President's budget
11 proposal would contribute to significantly higher power
12 rates while causing adverse economic impacts in the
13 Northwest.

14 The proposal is also unnecessary because
15 Bonneville continues to make repayment on time and
16 often early as its financial strength permits.

17 It is in Washington's interest, as it is in
18 the region's interest, to settle the longstanding
19 disagreements about how the residential and small farm
20 customers of investor-owned utilities should receive a
21 fair share of the benefits of the federal power system.
22 A settlement of the residential exchange guided by the
23 regional act and within the parameters laid out by the
24 parties would be acceptable and certainly preferable to
25 no settlement at all.

1 It's important in the region that all parties
2 believe that their claims to fairness and legal
3 entitlement are reflected in a package that will
4 benefit them in the region with long-term certainty and
5 durability.

6 The Governor has significant concerns about
7 the fallback proposal outlined in the Regional
8 Dialogue. If issues around the residential -- or
9 investor-owned utility, residential exchange, or the
10 public utility exchange are not resolved, the region
11 will necessarily revisit the same stubborn
12 controversies regularly over the next 20 years.
13 Deferring these issues will not, as history teaches,
14 make them any easier to resolve later.

15 The Pacific Northwest Electric Power Planning
16 and Conservation Act made conservation the first
17 priority -- a first priority resource, and the region
18 has gained major benefits from significant investments
19 in energy efficiency over the past 26 years. The
20 Governor strongly supports Bonneville's commitment to
21 acquire its share of the region's conservation targets
22 developed by the Northwest Power and Conservation
23 Council.

24 If Bonneville finds it necessary to augment
25 the system for whatever reason, they should do so in

1 accordance with a Regional Power Act. In particular,
2 Bonneville investments in new resources should be
3 consistent with Power Council's plan, and certain large
4 resource acquisitions by Bonneville should be subject
5 to council review, as the Act requires.

6 Since voters in our State approved
7 Initiative 937 in November requiring utility investment
8 in conservation of renewable energy, it will be
9 important for Washington State energy officials and
10 Bonneville to coordinate policies and rules to make it
11 easier for Washington utilities to comply with the
12 initiative.

13 I'm just paraphrasing some of the key
14 positions on a number of different topics. On fish and
15 wildlife, Bonneville plays a fundamental role. As an
16 environmental steward in the Pacific Northwest,
17 Bonneville's duty to fund fish and wildlife obligations
18 is substantial and does not change in any way as it
19 develops a different power contract.

20 According to recent studies, aluminum
21 companies make a positive contribution to Washington
22 State's economy; in particular, by providing high wage
23 family jobs. The Governor encourages Bonneville to
24 build upon the current contracts and continue to seek
25 opportunities to maintain this economic value in the

1 region. While recognizing Bonneville contracts alone
2 cannot fully restore this once vibrant industry, for
3 reasons of fairness, the Governor supports Bonneville's
4 efforts to protect these valuable jobs without placing
5 excessive costs on other ratepayers.

6 There is some concern that Bonneville's
7 proposal may not have the flexibility necessary for new
8 tribal utilities to successfully form and serve
9 customers. I think you heard that today. The Governor
10 encourages Bonneville to continue to work with tribal
11 utilities to afford them every opportunity to succeed.

12 In closing, the Regional Dialogue offers a
13 great opportunity for the region to refocus
14 Bonneville's role to provide the best possible service
15 to the Northwest for the long-term future. The
16 Governor believes that we should and can reach this
17 goal throughout all these discussions in the Northwest.
18 Thank you.

19 MR. NORMAN: Thank you.

20 Bruce, have you had a chance to catch your
21 breath there?

22 MR. MEASURE: I have. Thanks, Paul.

23 MR. NORMAN: It's your turn.

24 MR. MEASURE: Well, I'm glad I didn't hold
25 anyone up. I'm pleased to take this opportunity to

1 comment on Bonneville's draft Regional Dialogue
2 proposal.

3 As you know, Montana shares a keen interest
4 with the rest of the region in successfully reaching
5 the goal of preserving and enhancing the benefits of
6 the federal Columbia River power system for the
7 Northwest and for its citizens. To endure, the
8 Regional Dialogue proposal must provide equity and
9 balance for FCRPS regional stakeholders.

10 As to the regional exchange credit, Congress
11 intended that the residential exchange program would
12 provide benefits of the federal system to residential
13 and small farm customers through investor-owned
14 utilities in the region. The issues of allocation and
15 amount have become contentious. And despite recent
16 signs of compromise, the -- or as I understand, the
17 signs of compromise failed yesterday -- the potential
18 for REP settlement talks to bog down remain.

19 Disagreements focus on comparison of
20 historical benefit levels and stakeholder perceptions
21 of equity that have yet to be reconciled. I will not
22 attempt to reconcile differing stakeholders' positions
23 but will note that the most equitable settlement of REP
24 amounts is likely to leave no stakeholder group
25 satisfied.

1 Instead, I want to concentrate on the
2 allocation of REP benefits. While the Bonneville Power
3 Administration has welcomed the four state commissions
4 effort to determine allocation of REP benefits, the
5 State of Montana strongly discourages you from
6 accepting any allocation that departs significantly
7 from the average system cost methodology. As you may
8 know, the current allocation does depart significantly
9 from that ASC methodology to the detriment of Montana's
10 ratepayers.

11 As far as the direct-service industries are
12 concerned, Montana is fortunate to remain the home of
13 one of the few remaining direct-service industries,
14 Columbia Falls Aluminum Corporation. We believe it's
15 commendable for BPA to continue to offer benefits to
16 DSIs like CFAC as a way of assisting in maintaining
17 CFAC's economic viability and that of the region.

18 With regard to new publics, Bonneville has
19 clearly acknowledged its obligation to supply power to
20 any new publics under Section 5(b) of the Northwest
21 Power Act. The Northwest Power and Conservation
22 Council recommended that new or next loads should
23 qualify for service from the existing system on the
24 same basis as existing public utilities.

25 The State of Montana concurs with the

1 Council's recommendation. Any allocation of the
2 federal-based system that does not provide equitable
3 treatment for new publics risks the possibility of
4 legal review.

5 And finally, the obligation for fish and
6 wildlife, BPA's legal obligation to fund activities and
7 projects that protect, mitigate, and enhance fish and
8 wildlife in the Columbia Basin that have been impacted
9 by the construction, inundation, and operation of the
10 federal hydro system. The State of Montana continues
11 to urge BPA to commit to the implementation of the
12 Council's fish and wildlife program, specifically, the
13 subbasin plans in Montana and the Council's mainstem
14 amendment operations for Libby and Hungry Horse that
15 Montana feels must be implemented.

16 Lastly, Montana asks that the ratepayer moneys
17 Bonneville spends on fish and wildlife be spent in the
18 most cost effective and efficient manner possible.

19 Montana commends the efforts of Bonneville
20 Power Administration to finalize this process that had
21 its beginnings over a decade ago in regional review and
22 urges Bonneville Power and the Department of Energy to
23 conclude this process expeditiously. 2011 is looming
24 on the horizon and the uncertainty surrounding the
25 responsibility for resource acquisition compels an

1 immediate response.

2 While it is Montana greatest desire that the
3 region achieve consensus, the concerns I've addressed
4 above apply equally to Bonneville's fallback position.
5 Thank you.

6 MR. NORMAN: Thanks a lot, Bruce.

7 MR. HILL: I think I -- and I'm sorry I
8 didn't write down everybody's name, but I think I heard
9 the representative at least from Montana say that
10 Montana supports the DSI allocation that's in the
11 proposal; is that right?

12 MR. MEASURE: That's correct.

13 MR. HILL: And what's the view of the
14 other states?

15 MR. KJELLANDER: In response, the State of
16 Idaho does not have any DSIs. I think we may be in the
17 same boat as Oregon. So two of the four states do not
18 have DSIs.

19 MR. HILL: Right. But in terms of the
20 proposal, do you object or you don't object?

21 MR. KJELLANDER: We don't have a position
22 on that.

23 MR. HILL: That's fine, too.

24 MR. CARRIER: As I said, it's gratifying
25 when Oregon and Idaho can always be on the same page.

1 MR. KARIER: We weren't that specific from
2 Washington, and I don't think there was a specific
3 proposal for the DSIs in the Regional Dialogue. I
4 think some of that was still left to be worked out.

5 But we certainly agreed with some of the
6 sentiments in the contracts in the past that have kept
7 some of those jobs in the Northwest and with -- in a
8 somewhat limited and constrained manner. I mean,
9 there's a compromise position out there that would be
10 acceptable in Washington.

11 MR. HILL: There was a couple of comments
12 about the funding for fish and wildlife programs.

13 Do you all believe that there are elements of
14 the proposal that jeopardize Bonneville funding for
15 fish and wildlife programs?

16 MR. MEASURE: We've not seen anything in
17 Montana that we would identify directly. We would just
18 continue to encourage Bonneville to pay heed to the
19 program.

20 MR. KARIER: My understanding is that
21 Bonneville has said that the Regional Dialogue would
22 not in any way impact its continuing obligation for
23 fish and wildlife, and I think our Governor's
24 statements simply reiterate the importance of that
25 position, that it should not result -- it should not

1 result in a diminishment or a change in that
2 commitment.

3 MR. KOLEVAR: I'd like to ask the four
4 states, the first two panels, we talked quite a bit
5 about the parties reaching settlement by themselves
6 rather than turning to others to make some of those
7 decisions.

8 Are the States on record or can you go on
9 record with your opinion as to whether you think the
10 parties reaching settlement themselves is the best
11 course of action?

12 MR. KJELLANDER: We would certainly prefer
13 a settlement that everybody's engaged in that takes
14 care of all the issue on the table. One that's not
15 been mentioned are the deemer accounts that some of the
16 investor-owned utilities have on the books today that
17 carry over from years past.

18 I would hope that any final settlement that
19 comes forward, and I'm somewhat optimistic that,
20 perhaps, through some outside intervention, that
21 perhaps those parties may be able to come to some
22 settlement amongst themselves that the concept of
23 deemer accounts and how that will be dealt with will
24 finally be resolved and taken off the table once and
25 for all as far as resolution is concerned.

1 So the short answer to your question is yes.

2 How that happens, I don't know. But we certainly are

3 on record of supporting a settlement and hope that

4 that's still achievable.

5 MR. MEASURE: Montana would prefer that

6 the parties settle it amongst themselves. But the one

7 thing that we're primarily concerned about is the

8 average system cost methodology that has not been

9 employed recently but I think is mandated in the

10 statute absent the agreement of the parties. And

11 Montana is significantly disadvantaged should that ASC

12 not be applied to whatever settlement is come up with.

13 MR. KARIER: And I think we've heard it

14 quite often today that the best forum really is the

15 Northwest and those stakeholders that are involved in

16 it. And the Governor continues to support those

17 negotiations. And I heard from a lot of the parties

18 today that they're continuing to work and try to close

19 those gaps.

20 MR. CARRIER: I just wanted to add that

21 certainly having the stakeholders most affected is the

22 first best effort to settlement.

23 And it actually goes to the question I had

24 written down for you and your panel: Absent settlement

25 of all or some of these issues, is the federal Agency

1 prepared to craft and implement an equitable solution?

2 MR. WRIGHT: Well, I'll take a shot at
3 that. The answer is yes. And then the question would
4 be, What path do we take?

5 We've already described what the alternative
6 is in the proposal, which is the fallback. Certainly
7 the parties as part of this discussion have urged us to
8 consider other alternatives to the fallback. We
9 haven't crossed that bridge yet as to whether we're
10 ready to go there because the first question is, Can we
11 get this settlement? Can the parties get the
12 settlement?

13 I just -- I feel a need to express to you
14 that, first of all, there is a group of investor-owned
15 utility folks and public utility folks who displayed
16 leadership by getting together over the course of the
17 last month and trying to close that gap. And I would
18 say, from where we sit, huge progress was made. Not a
19 little bit of progress, really substantial progress was
20 made.

21 Now, the last mile of any negotiation is
22 always the toughest part. And so at this point, I'm
23 not prepared to give up on getting the settlement
24 because I see how far apart the parties are and it
25 doesn't look very far to me. And before we move to the

1 alternatives, we're going to see if we can't push this
2 to a successful conclusion.

3 MR. HILL: I had just one question about
4 the net secondary revenue proposal in the President's
5 budget. We've heard various comments about that today.

6 Is the view -- and I think maybe it was
7 Mr. Karier, I'm not sure, that was commenting on that
8 here earlier. Is your view any different about that
9 proposal if it's -- if there is the ability -- if
10 Bonneville has the ability to access borrowing
11 authority in years when the revenues aren't nearly as
12 good, whether it's because of market prices or, you
13 know, bad water, or whatever it might be.

14 MR. KARIER: Well, I think, you know, the
15 example of a draught is one example of adverse
16 conditions that Bonneville can experience. There's
17 other types of adverse conditions. And so we
18 were -- our response is based on literal reading of
19 what was in the proposal and recognition that there's a
20 difference between borrowing authority and a reserve
21 that has a lot flexibility.

22 So if there's another proposal, we can respond
23 to that. But, ultimately, we come back to the picture
24 of Bonneville does make consistent and reliable
25 payments to treasury. And so I guess the question we'd

1 ask back is, What more is needed and why? And if
2 Bonneville's able to do that, and in some cases, make
3 advance payments when they can afford to, what more is
4 really needed from the federal government?

5 MR. HILL: Right. And I think that, at
6 least, in figuring out when it can afford to, and maybe
7 that's the question, I mean, I think their -- and I
8 know that, from talking to Steve, there's been a lot of
9 useful discussion over the course of the last year or
10 so about the budget proposal and other -- Bonneville's
11 access to capital of various different kinds and
12 ability to invest in facilities.

13 I think the question just is, At what point
14 does it make sense to use some of the net secondary
15 revenue to pay down debt knowing that the borrowing
16 authority is still available to Bonneville? It doesn't
17 extinguish the borrowing authority; the borrowing
18 authority is established by law.

19 And at what point or at what times and in what
20 years does that actually make sense to do that with
21 some of the net secondary revenues? And at what point
22 does it not? And what's the right mix of financing
23 tools that Bonneville could make use of and when?

24 MR. KARIER: So those are all interesting
25 questions that we haven't really -- I haven't seen

1 proposals that incorporate those. But I go back to
2 some of the comments in the beginning about
3 Bonneville's role is more of a business enterprise
4 probably than many other agencies in the federal
5 government. And I think that there has to -- you know,
6 as you resolve some of the questions you raise, also
7 look at some of the principles about that business
8 decisions and operations that Bonneville has to do.
9 And what kind of constraints are reasonable and still
10 expect them to make prudent decisions on investment?

11 There's a lot of pending significant
12 investments. There's a lot of potentially adverse
13 conditions. There's a lot of changes in the markets
14 that Bonneville needs flexibility to address in the
15 longer term.

16 And so each one of those kinds of rules and
17 conditions would have to be weighed against what do you
18 lose in constraining Bonneville's decisions in some
19 areas.

20 MR. NORMAN: Other questions?

21 So we're going to the open comment period.
22 And we have five people signed up and we'll take them
23 in this order: Steve Johnson, Dan Peterson, Bruce
24 McComas, Tom Casey, and then, Terry Mundorf if he comes
25 back.

1 Steve, maybe just grab the mike at this table.

2 And please do identify yourself and your affiliation
3 for the reporter.

4 (Discussion held off the record.)

5 MR. JOHNSON: Thank you very much. I'm
6 Steve Johnson. I'm the executive director of the
7 Washington PUD Association, which represents the public
8 utility districts which together are Bonneville's
9 biggest customer and serve about a third of the State
10 of Washington.

11 Today happens to be part of my association's
12 annual meeting so I could not be on the panel earlier.
13 But notwithstanding that, my board, who is meeting
14 right now, told me, Go over and participate. So here I
15 am.

16 And the issue I'd like to address is -- the
17 one issue in the limited time I have would be the
18 residential exchange. The investor-owned utility
19 representatives in some of the states where they're
20 predominant are making essentially, I think, two cases.
21 They're making one case that there ought to be a new
22 standard that is not the regional act. Not the law,
23 but that there ought to be a new standard based somehow
24 on distributing more broadly the benefits to their
25 customers and to their utilities.

1 And so that's not the law. It's a new
2 standard and could only, I guess, be arrived at via a
3 settlement because federal officials, including the
4 Bonneville Power Administration -- and by the way, I
5 commend the Bonneville Power Administration for this
6 whole process that they've launched and that they're
7 struggling under. You know, it's not easy, as you can
8 see, to work through that.

9 So a new standard. I think that's untenable
10 that if you look at what really happens in this system
11 is we have these small -- predominantly small nonprofit
12 distribution utilities. The majority of my members
13 have no power resources of their own. They're actually
14 dependent, full-requirement customers of Bonneville
15 Power Administration. Bonneville is their power
16 supply.

17 The investor-owned utilities are large and
18 have their own power supply and seek -- and I can
19 understand: They want to preserve these benefits. So
20 it goes to the second point.

21 Certainly, they'd like to preserve the current
22 level of benefits because they are the result of a
23 Bonneville agreement with them that we're currently
24 legally contesting. And that agreement was reached in
25 the late '90s. Judy Johansson was the Bonneville

1 Administrator at the time. She came from an
2 investor-owned utility. So left to go and became CEO
3 of PacifiCorp, a beneficiary, a huge beneficiary of
4 this program.

5 And I think if it hadn't been for the energy
6 crisis, they wouldn't have had as much of a benefit
7 because, part of the way that worked out, the increase
8 in these benefits was beyond what even she could
9 anticipate that they would be. But it had tremendously
10 adverse impacts on my members.

11 The 50 percent rate increase. There were
12 other factors, but this is -- for the first time, they
13 went above investor-owned utility retail rates. So did
14 the 87 PUDs have retail rates higher than any
15 investor-owned utility in the State of Washington. And
16 yet, on their power bills every month, their customers
17 are transferring money to investor-owned utilities.

18 So it seems to me that, if there is to be a
19 settlement, it has to more closely adhere to what the
20 law would have provided. Bonneville has made its
21 calculations in its proposal that that's where we would
22 be if you tried to make this law operate. And, of
23 course, it's very challenging 25 years later to
24 implement a law that has certain complex standards for
25 calculating that. So...

1 But that's where we will end up. If there is
2 no settlement, we go back to the law. And if that is
3 where we end up, as federal officials, I just urge you
4 to, as closely as possible, adhere to what the law
5 provides rather than these arguments for some new
6 standard absent making changes in the law.

7 MR. NORMAN: Thanks, Steve.

8 Questions for Steve?

9 MR. HILL: The residential exchange
10 litigation, that's -- I think it was argued a year or a
11 little bit over a year ago, I guess, and we're just
12 waiting for a decision from the Ninth Circuit, I
13 believe, in that, right?

14 MR. JOHNSON: That's correct.

15 MR. HILL: Is it your view that it is
16 possible to reach a settlement prior to a decision by
17 the Ninth Circuit?

18 MR. JOHNSON: Yes. But I'm a little bit
19 afraid there's something I'm not understanding in that
20 question. Negotiations are taking place right now to
21 reach settlement going forward, which is a separate
22 matter from the current litigation, correct?

23 MR. HILL: Well, it all depends on what
24 actually gets settled and resolved, I suppose.

25 MR. JOHNSON: Right. I think it's part of

1 the settlement discussions to settle the current
2 litigation.

3 MR. WRIGHT: I'd say, at this point, my
4 understanding, at least of the parts that we've
5 participated in, it is not an element. It could be
6 become an element. And at least our perspective has
7 been that it is possible to settle this, even in
8 advance of a Ninth Circuit decision. And we've
9 proceeded on that basis.

10 MR. HILL: I mean, it strikes me that
11 actually having the case not yet decided could be
12 useful for settling what needs to be settled here. I
13 mean, I can see how, once the Ninth Circuit decides the
14 case, however they decide it -- and believe me, I have
15 no influence over that -- could make a settlement
16 easier, could make it harder. But it's very
17 conceivable that it could make it harder.

18 MR. NORMAN: Anything else for Steve?

19 Thanks, Steve.

20 Dan's next. I failed to mention the time
21 limit here, Dan, and the rest of you folks, try to
22 stick to two or three minutes.

23 MR. PETERSON: My name is Dan Peterson.

24 Thank you very much for being here, for listening.

25 Thank you, Steve Wright, for your commitment and your

1 Agency's commitment to this Dialogue. Appreciate it.

2 I am one of three locally elected
3 commissioners of a little utility in the very northeast
4 corner of Washington State, a public utility district.
5 On November 7th, I was re-elected for the third time
6 with an opponent on the ballot, so I am feeling
7 particularly public right now.

8 And unlike nearly all of the others you've
9 heard from this afternoon, I am not a professional.
10 I've only been at this 10 years. I have a lot to
11 learn. And although I may have a suit on and may be
12 speaking in somewhat complete sentences without notes,
13 I'm a kid from the country.

14 And by the way, the professional you just
15 heard from provided us commissioners with 19 talking
16 points for this meeting. But the only thing I want to
17 do is tell you about the dream I had last night.

18 Last night, I dreamt that not only did we
19 publics here in this region get our acts together, but
20 we reached a settlement with the IOUs. I do sincerely
21 hope that dream comes true. But I have to confess that
22 one of the things that makes that dream a difficult one
23 may be the simple way we commissioners look at things.

24 Twenty-five years ago, we made a deal. It is
25 a law. And I know it's very complex, but there's one

1 simple thing that we 88 commissioners in the Washington
2 Public Utility Districts Association can wrap our
3 little minds and big hearts around. One simple thing:
4 Follow the law.

5 The reason we don't have a chart for you is
6 because it feels to some of us publics like what we're
7 giving is off the charts. Thank you for listening.

8 MR. NORMAN: Thanks, Dan.

9 Questions for Dan?

10 MR. SELL: No questions.

11 MR. NORMAN: Next is Bruce McComas.

12 MR. McCOMAS: My name is Bruce McComas,
13 and I'm the general manager for the Port Townsend Paper
14 Corporation. Been talked about a little bit here
15 today. I wish I'd been here on the panel because then
16 I'd have five minutes rather than two.

17 And really, you know, the 17 megawatts that we
18 buy from Bonneville Power is pretty insignificant in
19 the whole realm of things. But it's really important
20 to Port Townsend Paper Corporation. So I'm here to
21 speak on behalf of my employees and to speak for
22 continued fairness in the process.

23 The Port Townsend paper mill has run
24 continuously since 1928, when it started up, nine years
25 longer than Bonneville Power Administration's been in

1 existence. We're still the largest employer in
2 Jefferson County. We employ 320 people in Jefferson
3 County. We have another 500 employees at off-site
4 converting facilities in the Pacific Northwest. So
5 it's important; I mean, the 17 megawatts we buy, that's
6 about 50 direct jobs per megawatt.

7 We cogenerate 7 megawatts. We bought the rest
8 of our requirements from Bonneville and became a DSI
9 sometime in the '40s. I don't know how we ended up the
10 only pulp and paper company that's a DSI; that was
11 before my time. But, I mean, that where we're at. And
12 there are other pulp and paper companies that have
13 access to federal power at rates less than what we're
14 paying, contrary to what you heard. Because those pulp
15 and paper mills, their rate has everything rolled into
16 it.

17 Besides the rate that we pay to the power
18 side, we pay a rate to the transmission side. We have
19 to pay for transmission. We have to pay for wheeling.
20 We maintain five miles of our own transmission line.
21 We maintain our own substation. But those other pulp
22 and paper companies don't have to do it. That's rolled
23 into the rates that they pay to their utility.

24 We believe that the contract that we're
25 operating under now is a good deal. It's a good deal

1 for the region. And I hope that Bonneville will
2 continue with that contract, be that a direct sale
3 contract with Port Townsend Paper Corporation or a
4 contract through Clallam that we're doing now
5 post-2011, because it will help ensure that those 315
6 jobs continue in Port Townsend and those other 500 jobs
7 that are dependent on the paper we make will continue.
8 Thank you for your time.

9 MR. SELL: Can I ask: If the DSI benefit
10 is eliminated post-2011, what would be the effect on
11 your company?

12 MR. McCOMAS: Well, it would -- if we had
13 to go to -- part of what's happened is that if we had,
14 rather than the '40s, becoming a DSI, if we had gone
15 with a public utility, I wouldn't be here today. I
16 mean, we'd be just like the other ones, and we'd have
17 access to, you know, Bonneville's power at the rates
18 that they're getting.

19 If we lose that, I mean we're already at a
20 disadvantage to them. They're paying less than we are.
21 We're competing directly for some of the products we
22 make. If we have to pay more, I think it would put
23 those jobs at risk. Electricity is a big cost to us.

24 MR. SELL: What percentage of your cost
25 inputs is the electricity?

1 MR. McCOMAS: Power's about 16 to
2 20 percent of our total cost. A lot less than aluminum
3 companies, but it's not insignificant.

4 MR. SELL: Well, I appreciate you coming
5 up and providing the other side of the story that
6 was -- or at least another argument to what was
7 presented earlier.

8 MR. McCOMAS: Thank you.

9 MR. NORMAN: Tom Casey's next.

10 MR. CASEY: My name's Tom Casey. I'm a
11 public utility district commissioner elected by the
12 people of Grays Harbor now for the -- what is it? --
13 fifth time, I guess. It's a six-year term; some would
14 say it's a six-year sentence. And I've been
15 automatically re-uped without review of parole, but
16 here I am again.

17 The comments before me by Steve Johnson, I
18 think, were excellent and also by Dan Peterson. And
19 I'm going to -- I was planning to talk about the IOU
20 benefits. By the way, I'm not going to do that except
21 to mention one thing: We keep calling it a residential
22 exchange and we haven't done the exchange since the
23 turn of the decade. It's just money that goes to them.

24 What I would like to talk about is the slice
25 contracts, which I think is a tremendous opportunity

1 for us here in the Northwest. And we've been
2 practicing that with a number of utilities that already
3 operate part of their resources under slice contracts.
4 I want to report to you that they work very, very well.
5 They've been a great way for us to -- well, for the
6 utilities, like my own, for instance, to mature into
7 what I would call real utilities who really have to
8 take a look at how they meet their loads, how they
9 integrate their resources, how they manage their risk,
10 and what it really takes to be a part of the Northwest
11 system that is dominated by this river.

12 Because, essentially, we have to understand
13 the same things Bonneville has to understand in terms
14 of the weather and the flow of that water in terms of
15 how it has to come down and be stored for fish benefits
16 and how we price, how we hedge, and so forth. And that
17 has been -- that has completely changed our world.

18 And I see tremendous benefits out in the
19 future for the whole region; for instance, we share the
20 risk of missing treasury payments, if you will. It's
21 our obligation to gather the revenue, the accumulated
22 revenues that are necessary to make monthly payments to
23 Bonneville for that treasury payment. That's something
24 that, then, reduces Bonneville's risk at having us do
25 that kind of thing.

1 We've gotten, in the State of Washington
2 particularly, we not only have been building renewables
3 but we're going to build a lot more. And as you've
4 heard in previous discussions, renewables like wind
5 require some pretty fancy footwork in terms of
6 integrating those resources into the rest of what we
7 have. This isn't true with solar; it's going to be
8 true with others.

9 The hydro system does work well for that. And
10 with a slice contract, then, our ability to integrate
11 is greatly enhanced. There's nothing like having
12 access to hydro that has storage accounts and
13 everything else with it. I mean, we have to have good
14 weather predictors as a part of our risk management
15 team, but utilizing other -- the ability to utilize
16 other nonhydro resources that we have in our portfolio,
17 it's really made it a lot easier by flexibility that's
18 brought in by the use of the hydro system.

19 And that is the key word: Flexibility. We
20 have to have a slice contract that really gives us a
21 slice of the system, as the concept implies. We need
22 the flexibility that we have now. We've got to have
23 what we currently have or the product could become a
24 near -- near useless to us and not much better than
25 just some other partial requirement kind of contract

1 that might otherwise be offered.

2 This is something that works well. It's a
3 proven product. And all we're really asking is that we
4 continue the successful contract relationship that we
5 have now in terms of how well it operates into the
6 future and that that opportunity is held open for any
7 other utility who wishes to engage in that or to expand
8 their current amount of slice.

9 Other than that, that's -- if you have
10 questions, I'll stand here. One other point, just a
11 response, some folks were concerned about being able to
12 serve new public utilities; they call that the rights
13 of the unborn in public power.

14 Those, I don't see where there's any way to
15 limit what their rights would be in terms of access to
16 preference power. They're not here to sign away their
17 rights. So I think that's a moot question. But I
18 wanted to focus on the slice thing.

19 If you have questions...

20 MR. NORMAN: Questions for Tom?

21 MR. HILL: Yeah. Can I ask one question
22 just about the flexibility of the slice product.

23 Are there elements of the proposal that you
24 believe limit the flexibility of the slice product in a
25 way that you view as undesirable?

1 MR. CASEY: Not specific terms, but I am
2 concerned about the loss of more general language which
3 indicates that our ability to use the product wouldn't
4 necessarily be exactly the same. I forget what that
5 language is, but there's some general language that I
6 understand that's being removed that has been kind of a
7 touchstone for us. And it certainly makes me
8 uncomfortable.

9 The dialogue I've had with the other
10 professionals and so forth leads me to believe this is
11 a real concern. You know, if nothing else, I would
12 be -- my mind might be put to ease if I could just
13 receive an assurance, you know, a written assurance in
14 some form that says, We're going to continue with the
15 kind of flexibility that will mirror what we have now.
16 It won't be less than that. And I can't get that
17 assurance; I'd sure like to.

18 MR. HILL: You said "assurance" and then
19 you said "written assurance." Those are two different
20 things.

21 MR. CASEY: Yes, sir. I'll stick with the
22 written. Actually, a chart would be good or a picture.

23 MR. NORMAN: Anything else for Tom?

24 Thanks, Tom.

25 So Terry, I think you reappeared. I was told

1 you were out of the room.

2 MR. MUNDORF: I was thinking I was going
3 to get called away by phone, it didn't happen.

4 My name is Terry Mundorf. I'm an attorney. I
5 work for an association of 19 preference customers of
6 Bonneville known as the Western Public Agencies Group.
7 And they've asked me to be the last speaker today.

8 I'd like to commend you or to express my
9 appreciation for ya'll being here and also to commend
10 your endurance. Remarkable. I fell asleep a couple
11 times back there, so job well done.

12 MR. SELL: I don't think you've seen us
13 fall asleep, Terry.

14 MR. MUNDORF: No, I said I fell asleep.
15 I'm glad you didn't notice.

16 MR. HILL: Are you going to identify the
17 speakers during which you fell asleep?

18 MR. MUNDORF: You know, surprisingly, I'm
19 incapable of doing that because I was asleep at the
20 time.

21 I'd like to offer a couple of thoughts on the
22 residential exchange dilemma, and I'd first like to
23 correct or establish of what our Agency is.

24 I'm part of the group of public
25 representatives who have been working, as Steve

1 referred to, to try to find a way through this dilemma.
2 Even before that, I think I've spent more time on this
3 topic in the last four years than any other single
4 person in public power land.

5 Not -- and it's because I think settlement is
6 the right thing to do. I've also litigated the case
7 before the Ninth Circuit, so I've gone in both
8 directions. But settlement is clearly preferable.
9 It's must better that we decide on our own behalf than
10 to let someone else decide it for us.

11 I'd like to make three quick points to, at
12 least, give you some appreciation for the degree of
13 difficulty this issue presents to the region. I'd
14 agree with Steve's characterization that, in the last
15 few months, great progress has been made in trying to
16 resolve the issue. I think I, perhaps, might disagree
17 with him in terms of how much territory remains to be
18 covered. But nonetheless, when you're covering
19 territory, and that's a good sign. So I'll just -- I
20 don't want to try and characterize the discussion; I
21 think that would be unhelpful in the extreme.

22 So couple of points I want to make. You've
23 heard the IOUs and the State representatives talk about
24 the promise that they got from the Regional Act which
25 was a commitment to wholesale rate parity. They did

1 get that. We acknowledge it. No questions asked. And
2 it's appropriate for them to emphasize that.

3 The promise that they did not, perhaps, spend
4 a great deal of time on is the one that the public
5 utilities tend to focus on. And that is the commitment
6 in the Regional Act that says that the publics will not
7 pay costs under the Act that exceed the benefits that
8 they receive under the Act. The moniker is noted under
9 Section 7(b)(2), Rate Test or Rate Ceiling.

10 And so, in these circumstances, we could be
11 insisting our full protection under the Act, don't send
12 us those costs. They could be insisting on, We're
13 entitled to every dime that we could get under whatever
14 calculations you want to make.

15 Clearly irreconcilable positions, because if
16 we don't pay for it, there's not many other places to
17 send the bill. So our intolerance to payment sets, in
18 a certain sense, a limit for the ability of Bonneville
19 to deliver payments to them.

20 And in credit to all parties, we've tried to
21 stay away from striking those kind of poses. But, at
22 bottom, fundamentally, that's the nature of the issue.
23 We have two promises contained in one statute which
24 are, under the facts that now pertain, essentially
25 irreconcilable. Which, again, the point is that, when

1 you're in that circumstance, you're darn well better
2 off trying to settle it than you are trying to fight it
3 out. Because, if you fight it out, at the end of the
4 day, someone will win and someone will lose. And
5 you're going to have an unhappy party. And that's
6 going to be unproductive in terms of trying to move the
7 whole program forward. So that was my first point.

8 Second point has to do with the level of
9 benefits, and there's many -- you heard many comments
10 about the 300 million rate increases and so on. I
11 don't want to take on that argument. I don't want to
12 fight about that. The \$300 million is the product of a
13 lot of circumstances, many of which arose during the
14 implementation of the subscription contracts in the
15 energy crisis that occurred. And Bonneville, calling
16 on customers to do things to help it through that
17 crisis, the IOUs stepped up and converted a power sale
18 with a financial arrangement. They helped by doing so.
19 I think everybody acknowledges it. I certainly do.
20 Question is: How long should that level of benefits
21 persist?

22 To give you some basis for judging that level,
23 I sort of went back and tried to find some
24 documentation. I mean, a lot of people can do charts
25 and calculate numbers and come up with any result you

1 want to within reason about how much has been
2 transferred back and forth.

3 I found a Power Function Review Background
4 Paper that Bonneville prepared that describes the level
5 of benefits from the 1982 to 2001 period, paid
6 essentially by the publics to the IOUs. And the
7 average annual level of benefits for the total program,
8 which includes both IOUs and public utilities, was
9 \$188 million per year. Take out about 20 million of
10 those numbers because that was the part that public
11 utilities were receiving and its somewhere in the
12 \$160 million range on average.

13 So without putting too fine a point on it, it
14 gives you some feel for the amount of real estate
15 between one group with a perception about what seems
16 reasonable and another group about what seems
17 reasonable. So that at least, hopefully, gives you a
18 flavor for the degree of difficulty involved.

19 Last point I'd like to make is that the
20 Agency, in prior iterations of this particular issue,
21 has tried to bring all the parties together. And in
22 certain -- at least in two occasions, failed to get the
23 publics to join and went forward with a settlement that
24 was essentially bilateral between Bonneville and the
25 investor-owned utilities.

1 And I'll use my moment in the sun to urge the
2 Agency to urge you to not go down that trail again. I
3 think to have a durable settlement of this issue, it
4 will require the assent of not only those who receive
5 the money but those who provide it, which would be the
6 publics. And I think that is the only construct that
7 gives a settlement any hope of viability for the
8 contract term.

9 I probably overstayed my welcome. So I'll
10 thank you for the opportunity. And if anybody has any
11 questions...

12 I'd be willing to answer the one about the
13 settlement with litigation pending.

14 MR. NORMAN: Questions for Terry?

15 MR. HILL: The only -- you were talking
16 about the -- in the past the Bonneville Power
17 Administration had resolved the situation in the end
18 with an agreement between Bonneville and the IOUs.

19 MR. MUNDORF: Correct.

20 MR. HILL: And the publics didn't get in
21 on it. And you say that the way to get past that is to
22 have the publics in on it.

23 MR. MUNDORF: Yes.

24 MR. HILL: Well, that said. But isn't
25 that the same thing as saying the publics and the IOUs

1 need to come to a settlement, which we can all agree
2 with?

3 MR. MUNDORF: It is. But it's a way of
4 making sure that, at least, to my satisfaction, that
5 the administrator and for whom he works understands
6 that the alternative approach, which is two out of
7 three parties agree and one's left out, isn't really a
8 viable alternative. And it does lead inevitably to the
9 conclusion that you just drew and I think that's the
10 proper conclusion to draw from it.

11 And so, I'll answer, unprovoked, the question
12 that you asked Mr. Johnson about the opportunity for
13 settlement with litigation pending. And I think the
14 answer is it kind of depends. I mean, clearly you
15 could do such a settlement if the pending litigation
16 was disposed of as part of that settlement. You know,
17 it happens all the time. You're more familiar with
18 that than I am, probably.

19 Less clear is what happens if that litigation
20 is not included in the settlement and then the court
21 comes down. And then the answer, candidly, is "it
22 depends."

23 Because if the decision is such that it casts
24 doubt on the underpinnings of the settlement that is
25 the most recent settlement, then you've got a question

1 to ask. Is there somebody out there that's going to be
2 sufficiently unhappy that they're going to use that
3 case to launch a challenge to the newest settlement?
4 And so, it, to me, makes the vitality, viability of the
5 new settlement much more problematic.

6 MR. NORMAN: Anything else for Terry?

7 Terry, thank you very much.

8 So with that, I think we're done with the
9 testimony. I appreciate you all coming today. And
10 like I said, there will be a transcript of the whole
11 proceeding that we'll put on our website. And the only
12 thing left is any closing comments from the panel here.

13 MR. SELL: I would like to make a few
14 closing comments and then I would particularly like to
15 ask my colleagues from Washington, D.C., to make
16 comments and then perhaps have Steve close it.

17 The main thing I want to say is thank you for
18 the insights, for the stories, for the analogies. It
19 was all very helpful, and my great desire is for these
20 issues to be resolved. And I urge you with the
21 strongest language to resolve those issues.

22 Once again, the reason I am here is to better
23 understand your process, because I believe this is
24 where the issues should be resolved, so that I can more
25 effectively empower Steve to make the final decisions

1 to allow us to move forward and to provide whatever
2 political protection and support for his decisions that
3 are required in order to see this through the
4 administration and other interests in Washington, D.C.
5 That's why I'm here.

6 I think we're on the verge of -- and you are
7 on the verge of being quite successful, and I urge you
8 to cover the final miles to do that. Thank you.

9 MR. HILL: I appreciate the opportunity to
10 be here, and I appreciate the opportunity to hear from
11 all of you. One of the reasons that we liked the idea
12 of having this meeting here is so we could hear from
13 folks who don't have representatives in Washington,
14 D.C. We get lots of calls, not just on Bonneville
15 things, on all the other things that the Department of
16 Energy deals with, from people who are Washington
17 representatives or have the ability to travel to
18 Washington. But we understand full well that decisions
19 that are made by the Department of Energy and by the
20 Bonneville Power Administration affect a lot of people
21 who are not in or who do not have representatives in
22 Washington, D.C., which is why the Deputy and Kevin and
23 I wanted to come out.

24 We do work very closely with Steve, and I work
25 very closely with Randy Roach, the Bonneville general

1 counsel, and I have great respect for Steve and the
2 attorneys at Bonneville. We work very closely with
3 them on a lot of things.

4 There are the issues you've talked about here
5 today and that we've heard more about. I would
6 encourage you to continue to work to resolve those here
7 in the region.

8 And as to the things that have been in the
9 President's budget relating to net secondary revenues,
10 I also appreciate the discussion that has occurred here
11 in the Pacific Northwest about that. I do think that
12 there are opportunities to work with that, to work with
13 the folks at Bonneville, to work cooperatively with
14 that proposal, and, of course, none of us actually know
15 what's going to be in the next President's budget yet.
16 That's getting worked out and will get worked out in
17 the course of the next couple months.

18 But, again, I appreciate your attendance today
19 and look forward to continuing to work with the folks
20 at Bonneville and all of you on the things in the
21 future.

22 MR. KOLEVAR: We hear in Washington that
23 electricity is the regional pastime in the Northwest.
24 And we got to see that firsthand today. And it's true.
25 It's unique, I will tell you, that they pay attention

1 to college football and things like that in other
2 regions of the country.

3 But we don't take it lightly; I promise you
4 that. The three of us have been at DOE the longest,
5 and I've seen it occupy significant amounts of quality
6 time by this Secretary and previous secretaries. This
7 Deputy Secretary and previous secretaries take it very
8 seriously. We all do.

9 And, of course, it's terribly complicated,
10 very complicated space. And I think it's for that
11 reason that I would echo the Deputy Secretary's remarks
12 and suggest that that is a reason why the folks here
13 want to do everything they can to reach settlement and
14 figure this out themselves.

15 I think, at the end of the day, everybody will
16 be happier, if nobody's entirely happy, with that kind
17 of an outcome. And I want to thank all of you for
18 allowing us to sit and talk to some of you today and
19 see firsthand these issues. Appreciate it.

20 MR. WRIGHT: I'd just finish by thanking
21 all of the participants. I thought you did a great job
22 today of outlining for folks here what the critical
23 issues are that we're confronting.

24 I know I've said before: I think this is the
25 most important decision that will be made in my tenure

1 as administrator. And so I'm grateful to Clay and
2 Kevin and David for coming out. I think this is
3 unprecedented: We have not -- in the 25 years I've
4 worked at the Agency, I think this is the first time
5 we've ever had anything like this with Department
6 officials out here.

7 So I appreciate the attention you're paying to
8 this, and I hope that we're going to be able to come up
9 with a good set of decisions that you folks will be
10 reviewing here in about 30 days.

11 Thank you to everyone for your participation.
12 And meeting adjourned.

13 (Meeting concluded at 6:10 p.m.)

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1 REPORTER'S CERTIFICATE

2
3 I, ELEANOR MITCHELL, the undersigned Certified
4 Court Reporter and Notary Public, do hereby certify:

5 That the testimony and/or proceedings, a
6 transcript of which is attached, was given before me at
7 the time and place stated therein; that any and/or all
8 witness(es) were duly sworn to tell the truth; that the
9 sworn testimony and/or proceedings were by me
10 stenographically recorded and transcribed under my
11 supervision, to the best of my ability; that the
12 foregoing transcript contains a full, true, and
13 accurate record of all the sworn testimony and/or
14 proceedings given and occurring at the time and place
15 stated in the transcript; that I am in no way related
16 to any party to the matter, nor to any counsel, nor do
17 I have any financial interest in the event of the
18 cause.

19 WITNESS MY HAND AND SEAL this 28th day of
20 DECEMBER, 2006.

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22 _____
ELEANOR MITCHELL, RPR
23 Certified Court Reporter
CCR No. 3006
24 Notary Public in and for the
State of Washington, residing
25 in King County. Commission
expires 09/29/09.