

**Meeting Notes**  
**Power Net Revenue Improvement Sounding Board**  
**June 30, 2004**

**Attendees:** Lyn Williams (PGE), Steve Eldrige (Umatilla Electric), Ralph Goode (Mission Valley Power), Steve Loveland (Springfield Utility Board), Ralph Cavanagh (NRDC), John Saven (NRU); Larry Cassidy (NPCC); Mark Walker (NPCC); Mary Verner (Upper Columbia United Tribes), Jason Eisdorfer (Citizens' Utility Board), Rob Sando (CBFWA), Gene Derfler (NPCC), Kris Mikkelsen (Inland Power and Light), Melinda Eden (NPCC), Pat Reiten (PNGC Power)

**BPA Attendees:** Paul Norman, Steve Wright, Michelle Manary, Liz Evans, Alex Smith, Cheryl Larson

Paul Norman opened the meeting by going over the agenda. He then turned to the summary table showing progress toward the \$100 million goal. He noted that the table includes \$3 million of revenue enhancements, which represent what BPA believes is being obtained beyond August 2003 estimates by better managing the use of the reservoirs for flood control this year. Also, the Bureau thought they could come in below what their expected expenses were for FY 04. Still the majority of the savings is in net interest expense. The total savings and revenue enhancements come in at \$111 million. This total does not include anything for summer spill reduction.

John Saven asked to have a clarification of line 12. Michelle Manary indicated that we called out 10 categories that the Sounding Board specifically wanted to look at to find expense reductions or revenue enhancements. However, to provide the full picture, we wanted to show you what is happening in other expense categories. John Saven asked if the \$2.5 million in line 12 would reduce the \$111 million and Michelle indicated that it would if that category were "counted."

Gene Derfler asked why line 12 was separate. Paul Norman indicated that the 10 categories were chosen by the Sounding Board as the most likely categories to offer cost reductions or revenue enhancements and the categories most under our control. We have little influence over those items in line 12 since they are influenced greatly by the availability of water or other factors.

Steve Eldrige asked when he could see the all-in costs on CGS. Michelle Manary indicated that the information would be available by July 1 or 2. Paul indicated that there was some difficulty getting data that didn't show enormous swings in what is booked because of debt optimization. We wanted to provide useful information and it has taken a while to figure out the best way to present it.

Paul Norman noted that the original genesis of the Sounding Board was a desire to find \$100 million in net revenue improvements, which, all else being equal, could zero out the SN CRAC. Well, not all else is equal. As most of you know we posted on the web last Friday draft forecasts of FY05 and FY06 financial results and power rates for comment have been

helpful, however, we have lost more than that in net secondary revenues. Despite this, the net revenue improvements from the Sounding Board process still leave us with a fighting chance to zero out the SN CRAC. We are seeking input on what factors we should consider in forecasts of net secondary revenues for the FY2005-2006 period, and on tradeoffs between 2005 rates and the risk of increases in 2006.

Steve Eldrige asked what the 3 or 4 top things were that the Sounding Board accomplished. Paul Norman indicated that though we would be focused on cost control regardless the Sounding Board review has put a sharper edge on both our internal efforts and those of our partners at the Corps, Bureau, and ENW. He said that preparing for Sounding Board meetings felt to staff like preparing for a Board of Directors meeting, even though the Sounding Board does not have the decision power of a regular Board. He said that though he couldn't point to specific dollar figures, he was confident that the savings have been higher as a result of the Sounding Board. Steve Eldrige indicated that the Board members had incurred travel and other expenses to be a part of this effort and it was good to hear that it bore fruit.

Larry Cassidy asked if we could clarify the earlier discussion on net secondary revenues. Paul Norman indicated that we have published our current financial forecasts, in which we use three levels of gas prices. One is our base case and then there are two higher cases based on current market outlooks for natural gas prices. From this we derive what rates would be given our expectations of net secondary revenues. Which gas prices to use when "looking forward" to set the SN CRAC is a judgment call we have to make. We are asking for input on that.

Steve Loveland indicated that he would have to see some probability analysis before he would feel confident providing input. Paul Norman indicated that we are using probability analysis. We assume 50 different water conditions with the varying gas prices, with the caveat that we will be starting the next fiscal year with depressed reservoirs.

Ralph Cavanagh indicated that in the past BPA had some long-term marketing arrangements for out of region sales. They don't have that now and have to rely on the spot market that is very volatile, thus making net secondary revenues also volatile.

Steve Eldrige stated that part of the uncertainty is on how the river will be run. He said that he would like to see that analysis along with sensitivity runs around water amounts. Paul Norman indicated that this type of information is included in the 33 pages of analysis that was posted on our web site. Steve asked if he would be able to understand it. Paul and Michelle said he would, but if he had questions to please call Michelle Manary and she would be able to answer his questions.

John Saven indicated that he would like to have a discussion around Treasury payment probability (TPP) and what that would be for FY06. Much of the savings that the Sounding Board has identified is in net interest expense. What happens to that category in FY06? Is that locked in or is it still very volatile. He's hoping that whatever happens it won't be a surprise.

## **Sounding Board Report**

The group then moved to the Sounding Board report with Ralph Cavanagh stating that the report has gone through several iterations with comments from most of the Board members.

Steve Eldrige stated that he thought Ralph had done a good job of weaving all of the comments together. There was general consensus on many issues. Ralph indicated that he had heard from some members that they would like to bring up a couple of points today.

John Saven indicated that page 6 of the report, which covers irrigation issues, seems to go too far for him. He thought that the Sounding Board was charged with looking at short-term solutions that would reduce the SN CRAC. Having the table included in the report seems overkill relative to the coverage of other subjects in the report. He would suggest removing the table and making a reference the total kWhs available. Ralph suggested making the change to have an illustrative reference to kWhs available, the number of contracts, and the average price in mills per kWh. John Saven stated he wouldn't have a problem with that.

Lyn Williams indicated that under renewables there is a reference to BPA-sponsored resources. Many customers in the region think that BPA should have a reduced role in meeting the region's load growth. Steve Eldrige indicated that in the report we were trying to strike a balance. There will be some customers that choose to invest in resources and meet their own load growth, but other customers will want BPA to take on that role. BPA should come up with renewables and conservation as a means of doing that. We put borders around that by suggesting an Integrated Resources Planning process.

Pat Reiten also indicated that he had the same concern with this particular reference to BPA-sponsored resources. Ralph Cavanagh suggested that the words "BPA-sponsored" be removed and replaced with "renewable." The Board members agreed to this change.

Steve Loveland indicated that he thought that the Sounding Board added value, but was concerned about whether the result was increased expenses in FY05 and 06. He would advocate an on-going role for a Sounding Board for the next 2-3 years until the current power sales contracts expire and a new form of cost management is in place.

Ralph Cavanagh asked if this should be the conclusion of the report. The Board members wanted to hear from Steve Wright before making that determination.

Steve Eldrige asked how continuing with the Board would relate to other processes such as Regional Dialogue and the Customer Collaborative? Ralph indicated that some of the Board members aren't members of the Customer Collaborative and that it is a customer-sponsored effort, not a BPA-sponsored effort.

John Saven wanted to go back to the report and on page 5 pointed out that he didn't understand the couple of sentences referring to NEEA funding. Ralph indicated that he would make some changes to that and would also cite the independent assessment referred to in that section.

### **Discussion with Administrator Wright**

Paul Norman indicated that Steve Wright would like to discuss the future of the Sounding Board. He said we are not under the illusion that we can rest on our laurels or that we are done yet on cost management. There is more work to be done—need to decide whether this group or some other group should continue.

Steve Wright thanked Ralph Cavanagh and Steve Eldrige for helping to prepare the report. Steve indicated that he mentioned early in this effort the importance of putting something in writing upon completion. He also thanked the Sounding Board for their efforts and indicated that he thought that this was one of the most successful public involvement efforts BPA had done. Steve stated that when the Sounding Board effort started he thought that we would find \$10-20 million and hoped that we would get up to \$80 million from summer spill changes. Even though a lot of the savings is from net interest expense, this was way beyond his expectations.

Steve Wright continued by saying that this has not been the year we thought it would be—we aren't having an average water year and that has caused a significant decline in net secondary revenues. Despite that, we think we have a reasonable shot at rate stability – and maybe even a rate decrease.

Steve Wright said the reasons he thought the Sounding Board process was so successful were: (1) it created a thoughtful review process by everyone involved; and (2) it brought a diverse group of customers and stakeholders together and created a greater understanding of each other's points of view. Steve asked the Sounding Board to be emissaries and take the report out to their respective communities and describe the process. Because of the success of this process, it encourages us to continue our hard work.

Steve Wright indicated that he was inclined to have this group or a similar group involved as we move forward into the next rate period. In the post-06 discussions, we are going to have to make decisions that will affect rates. Having discussions about the impacts of those decisions with a group like this would be very valuable. We also have 1 year left on the SN CRAC – FY 2006. Setting budgets often requires policy decisions to be made and having an opportunity for a group to engage on cost issues leads us to the appropriate policy choices.

Jason Eisdorfer asked Steve Wright why he thought the preparation for this group was different from normal business practice at BPA and how do we keep it alive. Steve responded that providing the opportunity for our internal people and our cost partners to connect with customers and stakeholders and receive personal, direct and immediate feedback creates a stronger accountability.

Steve Eldrige stated that it was his impression that BPA doesn't have executive control over its generation partners. Steve Wright indicated that in the case of Energy Northwest if we have serious objections to their budget our only tool is to disapprove the budget and then go through arbitration to get it changed. With the Corps and Bureau we have direct funding and a better opportunity for collaboration, but not executive control. It is still a negotiation.

Pat Reiten indicated that he thought the Sounding Board process had value because often customers don't get to hear other perspectives. If the Sounding Board were going to continue he would suggest that the reason this process worked was that it was tied to a specific goal and outcome. Going forward would need a goal that was real and tangible. Two things that were mentioned as possibilities for the Sounding Board to look at were the need for an SN CRAC in FY06. PNGC's members are part of the 23 percent that is Slice load—Exhibit N is important to these customers and outside the SN CRAC rate process. And the revenue requirement is not a part of the rate case and different from what IOUs go through—should it be in the rate case or some other forum.

Ralph Cavanagh stated that the Sounding Board process was remarkable for its tone and constructive discussions. He also felt that if there was the same level of management of the process moving forward that it would be as constructive. For those that don't live in Portland, it has been a burden to travel in to the meetings. He understood why BPA was unable to cover any of the expenses, but perhaps in the future some costs could be covered. NRDC will cover his costs, but if you could make every effort to minimize the cost to other groups that do not have the same means and cover their costs, he thought that would be appropriate and would help add to the diversity of the discussions. Steve Eldrige suggested that perhaps there were other places to hold meetings that were more central that could balance out the costs. There still need to be strong principles involved and it is important that it have strong staff support.

Steve Loveland indicated that the responsiveness and openness of staff was excellent and the fact that the Board had a clear mission helped focus everyone. Going forward this would not be a substitute for other process and especially audits. It is hard for a group like this to dig in and understand the details of the cost structure of BPA's energy partners. The next process should be more formal with clear goals and a clear mission. We are not here to lobby for our own projects but to set standards for analysis and budgets—format and content for accounting—budget policies and revenue requirements. Is this a reasonable expectation? Would like to review benchmarking standards for BPA and its cost partners and how those standards are developed. Would expect that there should be annual reports to the region on findings. This would be in an advisory capacity and not a decision body.

Steve Eldrige said that he'd been thinking about what worked well and what didn't work well about the Sounding Board process. He stated that even though the Sounding Board had no defined authority, it was clear from the start that what the Board thought mattered. He indicated that he didn't feel that BPA's energy partners had any skin in the game, but were here to make their case. The Corps and Bureau are good at process and it was good for the customers to meet them and understand their challenges. With BPA's cost structure there are too many fixed costs—what we were looking at for the \$100 million was just frosting to a really big cake. Seems there should be some review of those costs to determine if BPA is the right vehicle to cover these costs post-2006. Compared to BPA's overall budget of \$3 billion, a \$100 million isn't much. Perhaps we need to shorten the straws drawing on BPA.

John Saven indicated that the Sounding Board was created as a stopgap measure—the agency came to us to seek assistance with a problem. The Sounding Board made suggestions and asked questions. Now there is the Rate Case and a meeting focused on debt optimization and a huge

number of other BPA-related processes going on. At sometime we have to trust that there is reasonable cost control and that we can move forward on long-term contracts. Help Steve Wright to engage the appropriate groups when it becomes timely to discuss long-term contracts.

Larry Cassidy indicated that he thought the Sounding Board process was very productive, but he questioned how any group could make decisions about trading off costs—that is the job of the Administrator. Larry then asked the Administrator if he had a response to the Council’s proposal on the future of BPA?

Steve Wright indicated that we are close but that that the Regional Dialogue proposal is still going through the review process. He added though that we don’t expect that there will be major modifications from what the Council proposed.

Pat Reiten stated that looking back on how the Sounding Board was formed, it was created to help achieve a cost reduction target proposed by the customer groups as part of the original IOU settlement. And even though that settlement was not successful, BPA still went forward with their commitment. He found that commendable.

Ralph Goode indicated that last year he had the opportunity to look at the PBL’s costs and they showed us where FTE costs were going for the short-term and long-term. When we next looked at them they were right where they expected it to be. Also the other cost partners came to the table and provided valuable insight to their programs. Paul Norman pointed out to Steve Wright and the rest of the Board that Ralph Goode was the record holder for attendance at Sounding Board meetings.

Steve Wright asked if we were to do this again how many would participate. Pat Reiten, Ralph Cavanagh, Steve Loveland, Lyn Williams, Larry Cassidy, and Steve Eldrige indicated they would participate. Jason Eisdorfer said that he would be willing to participate again on the condition that the openness and iterative process that was exhibited were to continue. When the Sounding Board had questions they always received answers in short order. He would hope that commitment would continue. Paul Norman indicated that we believe in being open and would continue to make that commitment.

Mary Verner indicated that she thought the Sounding Board effort was very fruitful and appreciated being a part of the effort. She will ask her tribes to allow her to participate in any future process.

Ralph Cavanagh indicated that he would put that in as the conclusion of the report that BPA should continue to use a diverse Sounding Board to provide advice and challenges on cost and revenue issues for FY 2006 and beyond, provided that the agency is willing to maintain a comparable level of management focus and staff support. There was a suggestion that the phrase “targeted to specific outcomes” be added. Steve Wright indicated that he agreed with that conclusion.

Steve Wright then presented the group with certificates thanking them for their participation and “trophies” commemorating the “search for \$100 million.”