

Power Net Revenue Improvement Sounding Board
November 21, 2003
Meeting Notes

I. Introduction and Background (Paul Norman)

After introductions around the room, Paul Norman made the following introductory remarks:

- BPA reduced costs for FY 2003-06 by approximately \$400 million since August 2002, which helped us drop a projected 15-percent power rate increase to 2 percent
- But we have heard strongly that a 2 percent increase, or any SN CRAC at all, is a major problem for most of our customers
- We have a two-pronged strategy for attempting to zero-out the SN CRAC in FY 2004 and maybe FY 2005:
 - 1) Achieving a settlement agreement that would eliminate or defer \$469M out of the current rate period, eliminating the SN CRAC for FY 2004 and
 - 2) Pursuing a target of cost reductions and revenue enhancements for FY 2004-2005 of \$100M that, if accomplished, should, all else being equal, allow for a zero SN CRAC in FY 2005.
- BPA is seeking a plan for achieving the \$100M in collaboration with customers and other stakeholders. The process for doing so will come to a close by June 2004 in order to allow the information to be used in determining the FY 2005 SN CRAC that must be completed by August 2004.

The work to be concluded by June 2004 will be a set of assumptions to be used in the calculation of the FY 05 Safety Net CRAC.

II. Group Norms

We are open to all suggestions for achieving the \$100M target. BPA does not currently have a definitive plan for reaching the goal, though we have identified and will share here the categories of costs and revenues that we think bear the most examination.

Decision processes and authorities already exist for establishing each category of BPA's costs. Some decisions are made by BPA, and some by other agencies. The Sounding Board will not be a new decision maker. BPA is seeking Sounding Board input on what seems to make sense and what we might have missed. Sounding Board views will input to other decision processes. By June, the Sounding Board will address the question of "Is there a reasonable way to get the \$100M of cost reductions or revenue improvements?"

Paul indicated he would attend all Sounding Board meetings and Steve Wright will attend some of the meetings.

The meeting then spent time answering questions and taking comments from the Board members.

Q: Who will make the ultimate decision regarding how or whether to reach the \$100M target?

A: This will involve many BPA and non-BPA decisions, but Steve Wright will ultimately make the decision on what assumptions to use in calculating the FY 05 Safety Net CRAC.

A participant noted that the utilities have an expectation that this will be more than an exercise (i.e, BPA will implement ideas for reaching the target).

Q: Is the \$100M were an upper limit?

A. No, and even if the settlement fails, the effort to achieve the \$100 million would still go forward.

Q. When BPA would know if the settlement fails?

A. This would be known be late February.

Q. Will the Sounding Board process be “robust” regardless of the settlement outcome?

A. Paul indicated it would, provided customers and other stakeholders are willing to continue.

Q: Would failure to achieve the \$100M target cause the settlement to fail?

A: No – there is no penalty for failure to achieve the \$100 million target.

Q: Can this group be effective given the detail on costs that is involved in understanding the numbers?

A. BPA indicated it would try to do the necessary work to help the Sounding Board understand the information presented. Board members are also invited to make use of their own staff resources to review information presented in these meetings.

Q: Do above average levels of secondary revenue due to an above average water year relieve BPA of its obligation to try to achieve the \$100M target.

A. No. Improvements in secondary revenues due to good water or good market prices do not “count” toward the goal. BPA is obligated to do its best to achieve the \$100 M target for FY 2004 and 2005 regardless of the water year that occurs.

Q: What are BPA’s thoughts about the relationship of the Sounding Board process to the Regional Dialogue?

A: The two are not overlapping processes and the Sounding Board efforts are directed at current rate period issues whereas the Regional Dialogue looks beyond the current rate period.

III. Cost Reductions and Revenue Enhancement

Q: Is the goal a zero SN CRAC, or cost reductions and revenue enhancements, that is, if there is financial improvement that allows a zero in SN CRAC in 2005, would BPA still seek the \$100 million?

A: The cost reduction and revenue enhancement effort would go forward even if the settlement is approved and BPA has great water because we would still have a financial problem through FY 2006.

Q: BPA has already gone through a substantial cost reduction exercise, so is it reasonable to expect additional reductions? Should the technical staff associated with those efforts be part of these Sounding Board discussions?

A: The monthly technical forums, conducted by Kimberly Leathley's staff, will continue and that people in this meeting will, no doubt, engage the necessary technical staff support needed to continue the effort. The group was polled, and the sense was that the Sounding Board is looking for creative, outside-the-box solutions and should focus its efforts at the current high level and suggested that if members' technical staff want information they should contact Kim Leathley or Michelle Manary (BPA technical experts who were in the room). The conclusion was that the group would stay as it is, and that BPA staff would be part of future discussions as needed.

Q: Is there any other way that the success or failure of the settlement could have an additional effect on the Safety Net CRAC?

A: Yes, the settlement requires the administrator to calculate a forward-looking Treasury Payment Probability and consider it in deciding the 2005 SN CRAC whereas the GRSP's (BPA's General Rate Schedule Provisions) use a backward-looking Accumulated Net Revenue calculation that does not take into account expected further cost reductions.

The group then turned to a discussion of a summary chart of BPA's expense categories. Michelle Manary and Kim Leathley of BPA reviewed the chart to identify where BPA initially thought the greatest possibilities existed for achieving substantial cost reductions. They noted that cuts in some areas would result in offsetting revenue reductions and could not, therefore, contribute to achieving the group's goal.

Paul noted that changes in river operations for fish is a potentially large item at this time. He also noted that the Sounding Board is not the place where decisions regarding which actions to implement will be made. However, what to forecast for river operations

in the Safety Net CRAC calculations for FY 05 is something the Sounding Board could address.

Q: What are the alternative forums where the implementation decisions will be made?

A: The Implementation Team (IT), Technical Management Team (TMT), Power and Conservation Council, Federal Caucus and U.S.v Oregon process were identified as alternative forums. Paul committed to get a listing of the forums in which river operations are being addressed to the members.

Q: Could the different line items of fish-related expenses be pulled together for a more complete consideration by this group?

A: Yes – BPA agreed to do this.

Q: Is the focus for fish and wildlife changes largely related to potential changes in spill? Could the program costs be included as well?

A: Paul said yes – that’s likely the main focus, but program costs could also be included for discussions with this group.

Q: Is there a clear link between fish operations decisions and financial impacts?

A: Yes, operations of the hydro system for fish and wildlife purposes have financial impacts on power rates. It was agreed that a review of fish decision processes would be included in the Sounding Board’s next meeting.

One participant noted that conservation costs should be looked at for reductions to focus just on lost opportunities for now. Another participant noted that if reduced conservation targets were discussed, then increased targets should also be on the table.

IV. Future Meetings

The group agreed to one meeting in December and two in January with additional meetings to be scheduled later. Paul indicated BPA would send out an e-mail about available dates.