

Regional Dialogue Public Meeting: Potential Changes to BPA's Power Supply Role After 2006

September 25, 2002
The Mountaineers, Seattle, Washington

1. Greetings and Introductions.

The fourth regional dialogue public meeting on potential changes to the Bonneville Power Administration's power supply role after 2006 was held September 25, 2002 at the Mountaineers Headquarters in Seattle, Washington. Please note that this is a summary, not a verbatim transcript, of the discussion that occurred at this meeting. Many of the written materials referenced are available via the www.bpa.gov/power/regionaldialogue and www.nwcouncil.org/bpa websites.

Northwest Power Planning Council member **Tom Karier** welcomed everyone to tonight's meeting; he noted that tonight's event is an important one for everyone in the Northwest. **Karier** noted that the purpose of these meetings is to learn about various ideas and proposals concerning potential changes to how the Bonneville Power Administration markets its electricity after 2006. This meeting, which is jointly sponsored by the Northwest Power Planning Council and BPA, is one of six public meetings we are conducting throughout the Pacific Northwest to solicit comment from interested members of the public on this important issue, **Karier** said.

Before beginning the formal testimony portion of this meeting, **Karier** continued, we want to provide some background information on what this meeting is for, what we think the relevant issues are, and the ground rules for this evening's discussions. He noted that these meetings have been set up to allow discussion of the proposals that were submitted to BPA and the Council in response to a letter of solicitation that was distributed broadly throughout the region on June 19.

In that joint letter, said **Karier**, we requested that written proposals and comments be submitted by Thursday, September 12. That said, however, all who have come prepared to make statements or comments on this topic are invited and encouraged to speak, **Karier** said.

Electricity is a very important part of the economy in the Pacific Northwest, **Karier** continued -- we spend around \$8 billion a year in this region for electricity, and about 45% of that flows through the Federal power system. Depending on the outcome of these discussions, he said, there could be major changes in the power business in the Northwest, the role of BPA, access to Federal power and responsibility for Federal system costs and obligations. Decisions we face could have significant long-term consequences and we owe it to ourselves to take a careful look at our options. That is why we are conducting these meetings, **Karier** said, and that is why it is important

Next, Oregon Council Member **Eric Bloch** said he looked forward to hearing the many views that will be expressed at tonight's meeting. Be assured that these hearings are a genuine effort to learn about the issues of concern to all of you, **Bloch** said -- we are here to listen, and to better understand your concerns and your views. Whether those concerns come to us in the form of a formal written proposal, or as simple verbal comments, they will receive equal weight, **Bloch** added.

BPA's **Allen Burns** thanked everyone for attending tonight's meeting, noting that one question Bonneville had heard at previous meetings is why is it important to deal with this issue now. The answer is that Bonneville's customers need to know what the future holds now, as does Bonneville, **Burns** said -- we don't want to face a situation again where we suddenly have a large additional load, and have to purchase the energy with which to serve it in the open marketplace. **Fred Rettenmund** added that Bonneville's contracts with most utilities run through 2011; BPA's contracts with the DSIs run only through 2006. He drew the attendees' attention to the "Base Case" document, available at tonight's meeting, which explains Bonneville's existing contracting arrangements in more detail.

2. Proposal Presentations.

The joint proposal of Northwest utilities was presented by **Gary Zarker**, who thanked everyone for attending tonight's meeting. We believe this proposal meets the essential goals of Bonneville: to secure and equitably allocate the benefits of the FCRPS for the region through long-term contracts, with minimal legal risk and no legislative changes, to expose all Bonneville customers to the same risks, costs and benefits of the federal system, increases Bonneville's certainty in making its Treasury payments and meeting its fish and wildlife recovery obligations, and is supported by every utility in the region, save one, **Zarker** said

He emphasized that the proposal keeps in place all existing legal responsibilities for salmon recovery, as well as increases and stabilizes funding for conservation and renewable resources. In our view, this proposal represents the best opportunity to guide the benefits of the Bonneville system into an uncertain future, **Zarker** said.

Bill Gaines of Puget Sound Energy was the next speaker; he noted that another way this proposal will stabilize Bonneville over the long term is that it unites all of the customers in the region behind BPA. It provides further stability in that it lays out a strategy whereby Bonneville's customers will guide their own future, in terms of meeting load growth. In his 25 years in this industry, said **Gaines**, he has never seen or heard of such an unprecedented display of customer unity.

Ed Hansen of Snohomish County PUD was the next speaker; he described his utility's service area and customer base. He noted that Snohomish is currently experiencing the highest rate of disconnects in its history, with more than 100 residential customers leaving the grid every month because they can no longer pay their electric bills. He added that, at a recent meeting, one of Snohomish's largest customers, Kimberly-Clark, informed him that power costs at their Everett plant are the fourth-highest among the 31 Kimberly-Clark facilities nationwide. Whatever the future role of Bonneville, he said, it must include low, stable power prices, because the people and companies in Snohomish's service area cannot endure another large rate increase.

Pat Reiten of PNGC Power was the next speaker; he led the group through the joint customers' PowerPoint presentation, beginning with "Customer Goals and Objectives:"

Customer Goals and Objectives

- Create a common interest in the federal system for both public and private utilities
- The federal system is finite – equitably allocate available power benefits through long-term contracts that will secure the federal system for the region
- Expose all BPA customers to the same risks, costs and benefits of the federal system
- Establish clear obligations for who serves growing loads
- Reduce BPA's need to acquire new resources
- Reduce BPA's role as either a buyer or seller in the wholesale competitive market
- Assign responsibility for procuring power for future load growth to the serving utilities either directly or bi-laterally with BPA
- Allow serving utilities to decide how best to meet their consumers' loads not met by the federal system
- Allow serving utilities to assume the responsibility for marketing their share of any federal surplus or purchasing power from the market when needed
- Stabilize conservation and renewable investments

- Ensure fish and wildlife obligations are met
- Settle outstanding litigation and avoid future litigation!
- Accomplish all these goals without new legislation

Reiten then moved on to “Key Aspects of the Settlement:”

- Equitable sharing of the power benefits of the Federal Columbia River Power System
- Public agencies (Slice customers, requirements customers)
- A share of power benefits for residential and small farm customers of investor-owned utilities
- Direct Service Industries
- Responsibility for conservation and renewables

Next, **Reiten** went through the “Slice Power Sales Contracts” and “Requirements Customer Contracts” provisions of the joint customer proposal:

Slice Power Sales Contracts

- Slice customers receive a percentage allocation of the output of the federal system
- The Slice percentage is based on 2007 net requirements and critical water federal base system (FBS)
- Slice customers accept their percentage of the actual output of the FBS and,
- Slice customers agree to pay the same percentage of actual costs of the FBS
- Slice customers accept the uncertainty of FBS actual output – droughts and floods
- Slice customers agree to not place additional loads on BPA for the 20-year term of the contract – BPA has no obligation to serve
- Slice customers accept the obligation to market excess power under good water conditions and purchase power under bad water.

Requirements Customer Contracts

- BPA continues to provide power needed to meet requirements loads in excess of the customers’ resources, if any
- Requirements customers will retain similar contractual rights, responsibilities and obligations as they have now
- BPA will establish its rates for requirements service.
- Requirements rates will recover their share of the FBS costs plus any BPA costs to acquire new resources to meet the requirements loads
- Requirements purchasers can develop non-federal resources for use in serving load growth or for sale into the market
- Requirements customers will be able to develop their own new resources with appropriate notice to BPA Actual benefits will vary over time as BPA’s costs and natural gas prices change
- During the first five years of this settlement, some power will be provided to PGE instead of the full financial benefits
- The power will be delivered to PGE in the shape of the residential loads with a peak delivery of 280 MW
- This is expected to result in an average energy delivery of about 140 aMW and it will be sold at the same power rates as those charged requirements customers.

Next, **Scott Brattebo** of PacifiCorp discussed the “Residential and Small Farm Customers of Investor-Owned Utilities” portion of the proposal:

- Residential and small-farm customers that are served by investor-owned utilities will receive financial benefits from the federal system similar to the value of a Slice contract
- This will help align the interests of the region’s consumers to preserve the FBS for the region’s benefit.
- There are no specific limits to the benefits during the first five years.

- The settlement amount is based on the costs of acquiring new combined-cycle combustion turbines to serve the residential and small farm customers
- These CCCT costs are compared to the cost of federal power to Slice customers, adjusted for the value of actual surplus power that is sold
- Actual benefits will vary over time as BPA's costs and natural gas prices change
- During the first five years of this settlement, some power will be provided to PGE instead of the full financial benefits
- The power will be delivered to PGE in the shape of the residential loads with a peak delivery of 280 MW
- This is expected to result in an average energy delivery of about 140 aMW and it will be sold at the same power rates as those charged requirements customers.

Hansen then addressed "BPA Cost Controls" under the joint customer proposal:

BPA Cost Controls

- Customers making a long-term commitment to pay BPA costs need to participate in BPA's budget planning process
- Long-term commitment by the customers merits meaningful and enforceable customer participation in the process for setting BPA's expenditures

Next, **Brattebo** covered the proposal's DSI service proposal:

DSI Service Proposal

- Preference customers loads have grown to match the capability of the FBS
- The customers have proposed 600 aMW of BPA service to existing DSI smelters in the region with an additional 50 aMW for BPA service to non-smelter DSI loads
- BPA will make the allocations with active smelters being provided a base allocation of 100 aMW per plant (or more under certain conditions)
- DSIs accepting BPA power and willing to provide new generation in the region may qualify for BPA financial support for such generation, if needed
- For those DSIs that need financial support to develop new generation in the region, the customers will recommend that BPA provide credit support
- The details of particular credit support arrangements are important to all parties, but are too detailed for this presentation.
- During future power crises, if BPA curtails DSI loads, they should ensure that the workers are compensated for the curtailment
- Funds from BPA to compensate workers should be handled through an escrow account
- Any curtailment should be reviewed no less frequently than every six months to determine if it is possible to resume production of aluminum.

Hansen went through the "Conservation and Renewables" slide, as well as the proposal's "Fish and Wildlife Obligations" and "System Operations" sections:

Conservation and Renewables

- The goal is to acquire cost-effective conservation and renewables
- NW Power Planning Council will continue to develop regional power plans and develop conservation and renewables targets.
- The Council will also estimate the portion of the regional target that is applicable to BPA
- The obligation to serve load growth is transferred from BPA to Slice customers
- The conservation and renewables discount (C&RD) program will be enhanced to provide incentives for utilities to acquire cost-effective conservation and renewables
- Approved measures would be identified by an Independent Regional Technical Forum (RTF)

- BPA would increase the C&R discount to ensure that conservation investments have a stable funding source available
- Any utility that is subject to a system benefits charge or other local conservation and renewable mandates will be able to count the funds expended against the BPA credits
- Utilities that fail to secure sufficient RTF-approved measures will forfeit the credit and pay a higher rate for power to BPA
- All utilities will file annual progress reports to demonstrate their progress toward acquiring the desired conservation and renewables
- Any credits not provided to utilities will be used by BPA to acquire cost-effective conservation and renewable resources.

Fish and Wildlife Obligations

- Fish and wildlife obligations continue and are not changed by this proposal
- BPA, the Corps of Engineers and the Bureau of Reclamation continue to meet all Treaty/Trust responsibilities
- NMFS and Council requirements will continue to be determined as they are now
- BPA's customers will continue to pay for BPA's fish and wildlife obligations.

System Operations

- All operational decisions continue to be made by the Corps, Bureau and BPA
- All non-power "hard" constraints continue to limit power production
- BPA sets the operating range for Slice customers subject to the constraints on the system
- Operational constraints in the BiOps are HARD constraints
- BPA continues to have full control of the entire system in the event of power system emergencies
- Emergency operations include increasing system generation to assist California or other neighbors
- Ancillary services needed for transmission reliability will continue to be provided by BPA until a market for these services is formed.

Q & A on the Joint Customer Proposal.

When you said the maximum allocation of power to the DSIs would be 100 aMW per smelter, or more under certain conditions, have you discussed what those certain conditions would be? **Karier** asked. If a company has more than one active smelter, under certain circumstances, we would allow that company to move one smelter's entitlement to another smelter, for a limited period of time, **Brattebo** replied.

One important point you're trying to convey is that the Slice product is not new – it has been available for some time, said **Bloch** – that's important for us to understand, as we move forward. Are there material differences between the Slice product that has been offered in the past and the Slice product that is included in the joint customer proposal? **Bloch** asked. No, **Reiten** replied.

Burns asked about the concept of "meaningful and enforceable" customer input into BPA's cost and budgeting process – can you elaborate on what the joint customer proposal means by that? he asked. We're talking about a binding 20-year contract, **Zarker** replied -- given that commitment on our part, there does need to be a meaningful way to control costs – a way that is fair from both Bonneville's perspective and its customers', because we have to pass Bonneville's bills on to our customers. **Zarker** said the mechanics of how that "meaningful and enforceable" input would be provided are still under discussion.

The next presenters were **Mike Tanchuk** and **Bob Huber** of Alcoa; they led a presentation titled "Aluminum Industry's Competitive Challenges." **Tanchuk** began by noting that Alcoa is the world's leading aluminum producer, with 15% of the world's market. We are a value-based company, said **Tanchuk**, which takes its financial, environmental and social commitments very seriously indeed -- Alcoa also pays its bills, he said. This April, we were very pleased to be able to re-start about two-thirds of the Italcro facility, added.

Tanchuk worked his way through Alcoa's presentation, touching on the following major topic areas:

- Where is aluminum consumed?
- Where is primary aluminum produced?
- Oversupply has been chronic in the past decade; last year, the oversupply was 3.5 million metric tons
- Growing Chinese smelting capacity
- The long-term price trend in primary aluminum (graph) – down 2.7%, in adjusted dollars, over the past 20 years
- Average smelter power costs by region (\$10 per MW/h in Russia and Canada, \$23 per MW/h in the U.S.) Bonneville's recent rate increase means U.S. power costs will be approaching the highest in the world, Mike said
- The critical importance of a stable allocation of power at an affordable cost to the future of the Northwest aluminum industry

As you can see from the many aluminum industry workers in attendance tonight, said **Tanchuk**, our people are our greatest asset; obviously the decisions you make are critical to their future. We're convinced that if we all work together, we can find enough power for all of BPA's customers and still meet our fish and wildlife responsibilities, he said, acknowledging that the region does face some very hard choices in the years to come.

Tanchuk then yielded the floor to his colleague **Bob Huber**, who echoed the idea that the region is facing some very difficult choices. **Huber** then went through another PowerPoint presentation, titled "BPA Post-2006 Proposal." Essentially, said **Huber**, the Alcoa proposal would allocate more Bonneville megawatts to the DSIs than the joint customer proposal. At the same time, he said, we believe we need to bring additional resources to the system, without loans from Bonneville; Bonneville would acquire those resources from Alcoa and sell them back at industrial rates, **Huber** said.

Huber moved on, touching on the history of the Bonneville-DSI relationship, the effects of the Northwest Power Act, and an overview of the joint utility proposal. He noted that, in his view, the joint utility proposal is a fine piece of work, which required an unprecedented level of utility cooperation. **Huber** added, however, that he hopes people will look beyond that cooperation to the substance of the proposal itself, because in Alcoa's view, the joint customer proposal is unfair. It denies Alcoa power from existing low-cost resources Alcoa helped to build, and if implemented, will single out the Northwest aluminum industry for economic hardship. Our plants need economical power to compete, said **Huber**; our communities and our country will suffer if Alcoa and other Northwest smelters don't survive.

Other key points of the Alcoa proposal:

- Follow existing law – no new legislation required
- Meet request loads (up to a700 MW for Alcoa's Intalco and Wenatchee facilities) under a long-term contract
- Power rate would be blended and fair – equitable with other industries, mixture of old and new power costs, minimal impact on average BPA rate – about 1/20 of one cent per kWh, less than \$1 per month to the average residential customer
- Alcoa will offer new power to BPA at cost (including return on capital invested); will meet cost-effective standard; from contracts or new plants
- If Alcoa does not meet BPA obligations, BPA will not have to pay for new Alcoa power – this would protect other ratepayers from aluminum risks, and goes beyond what is required of other industries

The next presenters were **Sarah Patten** and **Shawn Cantrell**, representing a variety of environmental groups and the Northwest Energy Coalition. **Cantrell** went through a series of overheads, touching on the following main topic areas of the public interest proposal:

- The purpose of this proposal – to operate the Snake and Columbia Rivers to achieve the legal responsibility of salmon recovery.
- BPA and other federal agencies have largely failed to meet their legal requirements to protect and restore wild salmon and steelhead in the Columbia and Snake Rivers. The public interest proposal

argues that solidifying any proposals to distribute federal power without correcting what **Cantrell** called “this dysfunctional system” could prove disastrous for current and future salmon recovery efforts, and for the Northwest in general.

- Salmon and clean energy advocates have put together a proposal that seeks to right a system that in 30 years has yet to produce harvestable numbers of wild salmon and steelhead.
- The proposal would remove the economic and operational incentives to violate salmon requirements over time
- In return for their “Slice” of the system, utilities will bear weather, market and load growth risk. Therefore hydro “emergencies” except for short-term situations threatening health and safety, are **prohibited**. Fish operations are **hard** constraints.
- Salmon must have an equal and meaningful voice in power and river operations decisions
- In order for any new federal power operation plan to work, salmon must be given an equal and meaningful voice in all decision-making processes for operation of the Columbia and Snake River dam system. The public interest proposal recommends that the Columbia River Treaty tribes be given the authority to speak on behalf of salmon – with authority equal to that of the federal government – in all river operations forums and decisions.
- Reduce the pressure on the Columbia/Snake Rivers through energy conservation and renewable energy. A diversified energy portfolio can help enhance salmon recovery efforts by lessening the pressure on the Columbia and Snake Rivers to generate energy.

Patten then took the group through her portion of the presentation, beginning with a slide titled “Clean energy and federal power allocation: Goal: avoid the need for new fossil-fueled generation.” **Patten** noted that there has been a significant drop in renewable energy investment in the Northwest in the past few years; one of the key targets of the public interest proposal is to meet all new regional energy needs and replacement resources – about 350 aMW per year, with a combination of all cost-effective conservation and new renewables. Each utility in the region will have a portion of the target proportional to its load, and BPA will be responsible for accountability and enforcement of the proposal’s conservation and renewables goals.

Other key points of Patten’s presentation included:

- Low-income weatherization – BPA will fund local agencies (as they do now) to weatherize 1/20th of all unweatherized dwellings annually
- Cost estimate – NWECC estimates that the regional utility costs would be approximately \$350 million per year for conservation and \$93 million per year for renewables. These utility costs will be offset significantly by reducing the need for power; besides the environmental benefits, residential and other energy users will see lower bills, because the cost of the conservation is less than that of building new power plants.

With respect to worker protection, **Patten** said the United Steelworkers joined the Northwest Energy Coalition last year; the two groups are currently working together to develop a joint worker protection proposal, she said. **Patten** read the current draft of this section:

- At this point, the public interest proposal does not take a position on whether or not DSIs should have access to federal power. If any contracts are ultimately negotiated with regional aluminum companies, provisions should be in place to allow BPA to curtail their loads under drought conditions in order to meet salmon requirements. We recommend that during these curtailment periods, reviews be conducted every six months to assess curtailment status. In these circumstances, we support full compensation (100% of salary and benefits) and advance notice for the workshop for the duration of any curtailments. We believe that aluminum workers, their families and their communities should be protected from the adverse effects of such changes.

In conclusion, let me point out that the public interest community cares very deeply about the Northwest’s energy future, **Patten** said. We believe we can have both clean energy and salmon in abundance, she said; both must be an integral part of any plan for the region’s energy future.

Next up was **Jim Woodward** of the United Steelworkers of America (USWA), who thanked the committee for the opportunity to share the Steelworkers' views, and noted that his organization has been closely involved in the process that led to the development of the joint customer proposal. **Woodward** said the only point of disagreement between the Steelworkers and the other customers has to do with the 600 aMW in federal power allocated to the smelters; the Steelworkers' proposal is 100 aMW to each viable smelter -- about 800 aMW in all, given the current status of the region's smelters. **Woodward** then read the following proposal from the United Steelworkers:

- The United Steelworkers (USWA) supports a comprehensive Northwest energy policy that provides adequate, affordable and diversified supplies of energy in an environmentally sound manner that also preserves Northwest aluminum jobs.
- The aluminum industry has been an integral part of the Pacific Northwest since 1937, when industrial customers were sought by Bonneville Power Administration to provide a stable revenue base
- Today, with continued energy from the FCRPS, the network of aluminum smelters would provide thousands of jobs and stimulate some of the Northwest's most economically depressed areas, such as Klickitat and Wasco Counties
- With Washington and Oregon recording the highest unemployment rates for the 12th consecutive month, the region urgently needs to retain valuable aluminum jobs in the region
- The industry provides, on average, wage and benefits of nearly \$50,000 per year, compared to \$37,000 for Washington State's average
- Every aluminum industry job supports 2.9 jobs elsewhere in the economy
- The industry provides significant property tax benefits – in Washington State alone, the industry contributed \$129 million (0.9%) in state and local taxes in 1998
- According to John Stucke of the Spokane *Spokesman-Review*, "Smelters... have long been among the nest big-labor jobs in the state
- The aluminum industry also helps stabilize BPA rates by preventing power from being sold to the market at low rates during years when there is a surplus of power

With respect to our actual proposal as to what BPA allocations should be to the DSIs after 2006, said **Woodward**:

- With a high level of uncertainty about the Northwest's aluminum industry, it is unclear what the level of operation will be in the future. However, every effort should be made to retain operations in the Northwest and to keep businesses viable by making affordable power accessible.
- The United Steelworkers supports a fair and modest minimum allocation of 100 average megawatts to each operating smelter, contingent upon the following:
- Full compensation for all affected workers during any limited energy curtailment of no more than six months
- Aluminum companies demonstrating long-term viability with stable outside power contracts or independent production of matching energy to augment the limited BPA power.
- The United Steelworkers additionally supports five-year credit support to the DSIs for the development of additional power including renewable energy and other environmentally-sound generation.

The USWA additionally supports the following, **Woodward** said:

- Modulation agreements, where less power is used during peak times and more during off-peak times
- Interruptibility rights, giving BPA the ability to interrupt service (with advance notice and appropriate compensation) in times of severe drought when relying on hydropower would negatively impact threatened fish species
- An FCRPS that achieves the legal responsibility of salmon restoration and recovery
- Adequate investments in conservation, renewable energy and cost-effective energy efficiency services to meet a minimum level of standards.

In conclusion, said **Woodward**, the United Steelworkers believes this proposal will help to create a flexible Northwest energy system that would:

- Stimulate the region's economy
- Maintain workers' income during energy curtailments
- Reduce the threat to salmon during low-water years
- Provide new sources of highly-efficient energy at-cost to BPA and
- Help keep rates affordable for all customer groups.

3. *Public Comment.*

The first commenter of the evening was **Mark Peterson** of the United Steelworkers; he thanked the utilities for their efforts to develop a fair and equal power proposal for everyone in the region. **Peterson** noted that Washington has the highest unemployment in the country; Klickitat County, where the Goldendale Aluminum plant is located, has the highest unemployment in Washington. The decision you make on this issue is extremely critical to local economic well-being, **Peterson** said; as a steelworker, I support the base allocation of 100 aMW per viable smelter, as well as the joint customer proposal's five-year credit support provision for the development of additional energy resources. At the Spokane meeting, you talked about a so-called "wish list" that everyone seemed to be bringing to the table, said **Peterson**; my only wish is to see the Northwest's 10,000+ aluminum workers back on the job as soon as possible.

The next commenter, **Leroy Hedman**, explained that he is a pastor here in South Seattle; he noted that his congregation won an energy efficiency award in 1999. We distribute compact fluorescent light bulbs through the church, he said; we also teach people how to conserve energy – individuals, businesses and churches. We share recycling information, healthy gardening and water usage; we promote eco-justice and equality of opportunity; we participate in community meetings to promote clean, renewable and affordable energy, demonstrating all of these techniques at our small church in South Seattle, **Hedman** said.

There are costs associated with this effort, he said; if we fail to implement effective conservation efforts, the consequences will be huge for all of us. We urge you to focus on clean, affordable and reliable energy, salmon recovery and conservation, **Hedman** said. To you, this is primarily a financial matter; to us, however, protecting the earth through the maximum use of conservation and renewable energy is a sacred responsibility. Today, more than ever, our country needs the flame of Lady Liberty's lamp to be fueled by clean energy, **Hedman** said.

Next was **Greg Gilbert** of Tacoma Power, who noted that his utility advocates the equitable allocation of the federal system, equitable sharing of the costs and benefits of the system and of utility responsibility for managing load growth. However, said **Gilbert**, Tacoma Power does not support the joint customer proposal, because it offers Tacoma Power a reduction in the benefits it currently enjoys.

To the extent that one customer class receives a disproportionate windfall benefit in the first five years of the subscription period, their benefits should be adjusted downward during the second period to ensure that all customers receive equitable benefits during the 10 years of the subscription period, **Gilbert** said. Likewise, he said, customers that receive less benefits during the first five years of the subscription period should receive proportionately more benefits during the second five years.

As an example, **Gilbert** continued, if it were found at the end of the current rate period that one customer class – the IOUs for example – received a disproportionate share of the federal system's benefits, their benefits during the second rate period should be proportionately adjusted downward to ensure that their overall 10-year benefits are no greater and no less than the benefits allocated to any other customer class. Likewise, if it were found at the end of the current rate period that one customer class received less than their share of the benefits of the federal system during the first five years, their benefits would be adjusted upward during the second five years. Any other course of action would be a blatant violation of the fundamental objectives of the subscription strategy.

Gilbert noted that Tacoma Power was one of the original participants in the development of the joint customer proposal. Our support for the proposal was rooted in the fundamental objectives of equitable allocation of the federal system, and equal exposure for all customers to the risks and benefits of changes in the costs of the federal system, he said. We support the proposal's principals and objectives, said **Gilbert**; however, Tacoma Power does not support the joint customer proposal itself. If the final version of the proposal had met the proposal's objectives, he said, we could have supported it. Unfortunately, we find this proposal to be skewed toward certain

customer groups, with certain customers gaining benefits over and above their current contracts, while other customers, including Tacoma Power, would lose a portion of the benefits they receive under their current contract.

We seek only to maintain the benefits Tacoma Power enjoys under its current contract, **Gilbert** said. Absent that certainty, however, the joint customer proposal is unacceptable. Specifically, the proposed allocation scheme takes away the planning and resource certainty we have today, by transferring more risk to Tacoma Power sooner, while providing more certainty and stability to other customers, **Gilbert** said -- this is in clear violation of the equal risk principal, and is unacceptable.

Tacoma Power has proposed an equitable solution that would provide us with the minimum benefits we require, on par with the benefits we currently receive under our contracts, he continued. However, our proposal was not accepted by the joint customers prior to the submission of their proposal to the Public Power Council, and ultimately, to BPA, **Gilbert** said.

Finally, with regard to post-2011 contracts, any approach developed to address BPA's power supply role after 2006 must include as a key element post-subscription contracts, **Gilbert** said. Although the customer proposal may provide alternative contracts beginning in 2007, BPA must identify as early as possible what it intends to offer customers in 2011 – the products, rates, terms and conditions of those contracts. Customers deserve to know, prior to agreeing to contract conversions in 2007, what alternative contracts might be available in 2012 if they choose to stay with their current subscription contracts, **Gilbert** said. We request that, at a minimum, BPA develop language specifying that both the quantity and price for those choosing to remain with their subscription contracts through 2012 will be under the same terms and conditions as those choosing to convert their contracts in 2007 under the customer proposal. Customers choosing to stay with their current contracts, then to transition to the new settlement contracts upon expiration of their current contracts should be able to do so without penalty, said **Gilbert**. We see this approach as retaining much of the initial value of our subscription contracts, while capturing an equitable share of the out-year benefits shared by all customers under the joint proposal, he added.

In closing, our request to BPA is simple, said **Gilbert**: that the benefits and the risks of the federal power system be shared equitably among all customers during this subscription term. We also ask that, beyond the 10-year term of this subscription agreement, BPA ensure that sufficient and robust contractual mechanisms exist to guarantee the continuing equitable allocation of benefits and risks well into the new millennium.

Joseph Bogaard, representing Save Our Wild Salmon, was the next speaker. He described his organization and its goals, then said that BPA's post-2006 role is of immense importance to the region's efforts to recover the Northwest's wild salmon population. The effort to restore wild salmon and diversify our energy portfolio into clean and renewable energy sources is all about creating jobs and strong communities, he said. Too often, the region has been forced to choose between affordable energy and wild salmon, **Bogaard** said -- consider last year's drought, the energy crunch and BPA's use of a loophole in the federal salmon plan to disregard salmon recovery in order to run the river for energy alone. In the Northwest, our energy sources have had a profound and usually deleterious effect on our wild salmon populations, **Bogaard** said. We shouldn't have to choose between wild salmon and affordable power.

For that reason, Save Our Wild Salmon and its members groups firmly believe that this public dialogue about changes to BPA's power supply role needs to include a broader question, **Bogaard** continued: How can we as a region structure BPA's role such that BPA and other federal agencies meet their legal obligations to recover salmon? We believe the public interest proposal would take real steps toward correcting a system that over the past 30 years has yet to produce sustainable, harvestable wild salmon runs, said **Bogaard**. This proposal would ensure that the FCRPS is operated to achieve the legal responsibilities of salmon recovery, he said. It would give salmon an equal voice, and it would grant the Columbia River Treaty Tribes equal authority in those forums to that of the federal action agencies in all river operation forums.

In conclusion, said **Bogaard**, BPA's customers are saying they need stability and certainty. However, salmon and salmon-dependent communities and businesses also need certainty, and hope for the future. On behalf of all of the communities and cultures that rely on salmon in the Northwest, our member groups and the citizens across the United States with an interest in salmon recovery, we ask that salmon and salmon-dependent communities and businesses be granted that same level of stability. I urge BPA to adopt the public interest proposal, **Bogaard** said.

Harold Mozer, the next speaker, described himself as an engineer of 50 years' experience in the North American electric power industry, representing himself at tonight's meeting. I have read the joint customer proposal, **Mozer** said; it is refreshing to see this level of cooperation achieved through negotiation, rather than litigation. That's how it used to be in the Northwest, he said, and I hope we're returning to that way of doing business today.

Mozer also endorsed the joint customer proposal's contention that utilities should be responsible for meeting their own load growth, while Bonneville is freed to do what it does best: operate the region's hydroelectric facilities consistent with all environmental constraints and promote energy conservation. The joint customer proposal also strengthens BPA's ability to repay the Treasury for the money it has borrowed. I urge Bonneville and the Council to give serious consideration to this constructive and far-reaching proposal, **Mozer** said; I see nothing in this proposal that cannot be resolved through negotiations with the other parties that have presented proposals here tonight.

Next up was **Toni Potter** of the League of Women Voters of Washington. She noted that her organization arrives at its positions on issues through a vote of its members. With that in mind, she said, the League of Women Voters advocates 1) predominant reliance on renewable energy; 2) the use of a variety of energy sources and energy-efficient technologies; 3) appropriate levels of support to encourage the use of renewable energies and energy conservation with funding for research and development, financial incentives clear written policies and mandatory standards and 4) assistance for low-income individuals when energy policies impose an unfair burden. It is in keeping with these principals that we voice our support for the public interest proposal, **Potter** said.

Clarence Harper, representing the International Association of Machinists and Aerospace Workers (IAMAW) said his organization supports the Alcoa proposal. In the State of Washington, we've lost 50,000 manufacturing jobs, he said; we can't afford to lose another thousand. We don't want charity, he said, we want to work, and we're asking you to give this consideration. We haven't come to the table with a problem, we've come with a solution, **Harper** said.

Next up was **Vicky Henley**, also the representing the IAMAW. She said she particularly wanted to express her support for Alcoa's Intalco and Wenatchee plants; the loss of 1,100 jobs would destroy the communities in which those plants are located. We have talked about the need for compromise tonight, she said; 100 aMW per operating smelter is not a compromise, it is suicide for a plant of our size, which is completely dependent on BPA for its power. Alcoa has proposed a fair, no-risk deal for BPA, which will keep family-wage jobs in those rural communities, **Henley** said. These are real people, real families, who through no fault of their own could lose their jobs unless we can agree on an acceptable proposal. In 2006, if you decide not to let the aluminum industry on the grid, you'll have another endangered species in the Northwest – aluminum workers, said **Henley**.

Next up was **Jeremy Brown**, a commercial fisherman and a board member of the Washington Trollers' Association. Many commercial fishermen and their communities are profoundly affected by the operation of the FCRPS, he said; while the joint utility proposal has its merits, he said, I strongly support the public interest proposal.

Steve Reynolds of Alcoa was the next speaker; he expressed his support for the Alcoa proposal. He noted that the Wenatchee plant has been closed for more than a year, and urged BPA to provide the power needed to get this facility back on-line, so that its employees back to work.

Karen Fant, a private citizen, was the next commenter; she expressed her alarm at the direction of the Comprehensive National Energy Policy now under development in Congress. She said she is greatly disturbed, particularly by the policy's reliance on fossil fuels. Twenty years ago, BPA was spending \$200 million per year to promote conservation and renewable resource development, said **Fant**; it is time for this region to resume its leadership role in clean energy, cost-effective conservation and renewable energy sources. We cannot continue to rely on fossil fuels for our energy future, she said; even by conservative estimates, they will be depleted within the next 20 years. **Fant** said she strongly supports the public interest proposal.

Eldon Ball, another private citizen, spoke next. He noted that, when Bonneville Dam was built, the Columbia supported one of the greatest salmon runs in the world. If we are to save those salmon, he said, we need to act, and we need to act now -- the salmon can't wait. We need to get rid of the four Lower Snake dams, he said;

many scientists feel that is the most likely means of restoring the wild runs in the Snake and Columbia Rivers. I feel for the aluminum workers here tonight, but I urge them to remember what happened to the steel industry in this country – it became old and obsolete, and most of the steel we use now comes from China and the rest of the world. People can find another job, said **Ball**; however, salmon cannot find another river to use. I would urge you not to rely on aluminum jobs long term, he said.

The next speaker, **Bruce McComas** of the Port Townsend Paper Company, said it is frustrating, as well as ironic, that as recently as 1996, BPA needed the DSIs to help keep the agency financially viable, and now, it is considering the possibility of not selling any of its power to the DSIs. While BPA is not statutorily obligated to provide power to the DSIs, said **McComas**, one would think that Bonneville would feel a moral and business obligation to provide a reasonable power allocation to the DSIs.

McComas described his company's historic dependence on Bonneville, noting that Port Townsend Paper is still the largest employer in Jefferson County. It is a small, non-smelter DSI that uses less than 20 aMW in total power, and historically purchased all of its power through Bonneville. It has been a beneficial relationship for both sides over the years, said **McComas**, noting that Port Townsend Paper continued to buy its power from Bonneville even when BPA's rates were higher than those on the open market, in the belief that BPA would be the cheapest option over the long term.

However, in 2001, we were offered a contract that supplied only 75% of our needs, he said. Meanwhile, IOUs and publics, which purchased cheaper power from non-Bonneville suppliers under their 1996 contracts, were allowed to put greater loads back on Bonneville. We were also notified that if we switched our load to public utilities, we would probably be charged a much higher MR rate, even though the amount of service we used above our DSI contract was less than the 10 aMW BPA policy says triggers the higher rate. This penalizes Port Townsend Paper for ever having been a DSI, compared to some of our competitors, who buy from PUDs at rates much lower than those we pay, **McComas** said.

McComas noted that all DSIs are not 450 MW loads; Port Townsend co-generates about 7.5 aMW, roughly one-third of its needs, and purchases an average of about 16.5 aMW. We believe BPA's new large single load policy is contrary to the intent of the Northwest Power Act, he said; we believe the Power Act intended the new large single load policy to apply to loads that were, in fact, new to the federal system.

McComas said that, with a few modifications, Port Townsend Paper could support the Public Power Council proposal. This proposal provides power for non-smelter DSIs that we believe would meet Port Townsend Paper's needs. In addition to the total amount of power available, one addition to the Public Power Council proposal the non-smelter DSIs need is the ability to get load following-type service, he said. We need access to, and are willing to pay, for load following service, including demand and load variance charges, said **McComas**. The price, in principal, should be the same as that in the Public Power Council proposal – the same rate paid by BPA's utility customers. We believe BPA's final policy should also allow the option for smaller DSIs to convert to retail service from a local utility, without any new large single load or NR rate penalties, he said.

David Atcheson, a private citizen, said his first point relates to the BPA financial crisis. One area to look for savings is transmission infrastructure projects, he said; many of those improvements could be avoided through greater investments in energy efficiency and renewables, as well as demand-side management distributed generation. Second, said **Atcheson**, I urge you to consider all of the benefits when you weigh the future role of conservation and renewables in the region's energy portfolio. We can be a leader in renewable energy technology, he said, creating jobs as well as a broad array of environmental benefits. I strongly support the Public Power Council proposal, he said. I hope BPA will soon be synonymous with alternative energy sources, **Atcheson** said.

Ed Henderson of the Mountaineers said his group has a long association with energy production and use, conservation and renewable energy; we strongly support the Public Power Council proposal, and believe firmly that we can have both clean, abundant energy and wild salmon, if we get our priorities straight, he said. We heard a lot of sweet words from the power producers and from the aluminum industry about the need to meet our fish and wildlife recovery goals, **Henderson** said; however, I do not believe in voluntary goals. That hasn't worked in the conservation and renewables arena, and it didn't work during last year's power system emergency, when BPA failed

to meet its obligations to wild salmon. For any proposals that are ultimately put in place, he said, I will be a strong proponent of iron-clad rules in support of our fish and wildlife goals.

Next, **Curt McMillan** of Alcoa's Wenatchee works described his personal journey through a series of curtailments and layoffs, noting that his children have been asking him, "Dad, are we going to have to move?" I don't know what to tell them, he said – I want my job back and it's up to you fellows to give it to me.

Douglas Todd was the next speaker; he said he works at Alcoa's Wenatchee works, but he also represents his family and his union and his community. **Todd** posed a series of questions and statements to the Bonneville and Council representatives present: During the 1970s, he said, we watched the emasculation of the U.S. steel industry; what possible benefits will there be to Washington state if the aluminum smelters are similarly sacrificed? Taxpayers are already overburdened by the costs of saving salmon, he said; why now sacrifice Northwest aluminum smelters, putting hundreds of those taxpayers out of work? The very existence of aluminum smelters provides millions of dollars for your alleged salmon-saving plans, said **Todd**. Economic indicators now show Washington leading the nation in unemployment – what possible benefit can be served by sacrificing more jobs? Finally, said **Todd**, if BPA's plan is to eradicate Northwest aluminum smelters from the power grid by 2006, how high will unemployment escalate in Washington State due to BPA's greedy and self-serving intent?

Next up was **Ed McKerlie**, also with Alcoa's Wenatchee Plant. We've already heard that BPA needs to keep the power here in the Northwest, he said; we need to create more energy for more jobs. The efficiency the smelters have gained in their operations is tremendous, he said – we're not asking you to give us anything, we've earned that right. We deserve the right to stay here, he said – our environmental commitment is top of the line, and that's one of the reasons we've gotten where we have. We need power, and we need jobs, said **McKerlie** – everything we do has to be efficient, and that's how we work.

Judy Graham of the Washington Troller's Association was the next speaker; she described herself, and her organization, as something of an endangered species as well. She described her organization's membership, noting that it, too, represents river-reliant jobs and communities. She said the WTA supports balanced responsibility for power production and salmon restoration. She said that, like the utilities, the WTA wants a more certain future for its members and communities; however, the WTA supports the implementation of the public interest proposal. I ask BPA to recognize that it is not simply a power marketing entity – BPA's responsibility to salmon restoration is etched in both federal law and tribal/treaty trust responsibilities.

The next speaker, **Richard Conlin** of the Seattle City Council, said that, as an elected city council member, he represents the largest public power system in the state, as well as one of BPA's largest customers. Our ratepayers care deeply about the future, he said, and they're willing to pay for things that make that future better. When BPA was founded, its mission was not simply energy or money, but community. The vision was a system that would support, enhance and invest in the families and communities of the Northwest.

BPA has done a tremendous amount toward that, **Conlin** said, but this has come at a price. And unfortunately, much of that price has been paid by our environment, our salmon populations, and the working people in our fishing communities. The public interest proposal, which places high priority on conservation, renewables and salmon restoration, is consistent with the Northwest Power Act, with the best work BPA and the utilities have done in the conservation and renewables area over the past 20 years, and with Bonneville's goals of long-term economic stability. The Northwest has the critical mass of technology, skills and knowledge to make this region a world leader in clean energy development, **Conlin** said; if BPA can energize us economically by choosing a strategic direction that emphasizes salmon recovery and conservation and renewables, it will return to its roots. This is how BPA can become financially and economically stable, and fulfill its mission to the region. On behalf of the Seattle ratepayers, I urge BPA to adopt the Public Interest proposal, **Conlin** said.

Carl Ratcliff of the IAMAW was the next speaker; he said Alcoa's Intalco works has taken care of his family for more than 35 years, and it is his hope that Intalco will be there to provide employment for many future generations. I'm here to ask BPA to accept the fair-share allocation proposal put forward by Alcoa, he said; 100 MW per smelter is not enough, it is a death sentence for our industry. Without a power commitment from BPA, he said, we will lose 600 to 700 aluminum jobs at Intalco and another 400 jobs at Alcoa's Wenatchee facility; we will also lose another three indirect jobs for each aluminum job lost.

Sierra Club member **Terry Walsh** was the next speaker; she said she strongly supports the use of renewable energy such as solar, geothermal and wind, and strongly opposes increased use of non-renewable energy sources. She discussed the impact of fossil fuel use on the ozone layer and on global warming, including the recent weather anomalies in Bangladesh, Ghana and England. She read part of an article from yesterday's *Seattle Times*, "State Drops the Ball on Global Warming." To sum up, said **Walsh**, we don't want to choose dirty fossil fuels to generate electricity in this state; we want polluters to be required to clean up their own mess, and we want our state to be a world-class leader in resisting global warming, not adding to it.

Michael Shank of Biodiversity Northwest focused his remarks on the issue of sustainability. He noted that his organization supports the public interest proposal, in particular, its recommendation that the Columbia River Treaty Tribes be given authority equal to that of the federal operators in river operations, and urged Bonneville to apply the discipline of sustainability to its own operations. I hope Bonneville chooses to provide leadership in this area, he said.

Helen Gribble, a student at the University of Washington, said she is hoping to become a teacher upon graduation, a pretty chancy line of work to pursue. Last year, she said, the university imposed a \$30 per quarter energy fee because the University could not afford to pay its energy bills; classrooms were cold, and the University is no longer hiring professors to fill vacancies. We all want reliability and sustainability in our lives, she said; we all want good jobs for ourselves and our children. We will not achieve that, however, until we start basing our society on renewable and reliable energy. That doesn't necessarily mean we need to lose jobs, she said; it just means we need to be willing to make changes in our lives.

Rashmi Koushik, a private citizen, addressed BPA's failed efforts to restore healthy salmon runs; she noted that many scientists believe the best way to do that is by removing the four Lower Snake dams. I would feel more secure, personally, if this region was not so dependent on hydropower and fossil fuels for our power, **Koushik** said – I urge BPA to support the public interest proposal.

Michael Schut, representing Earth Ministry, a Christian environmental organization with more than 1,000 members in the Northwest, said there are many lenses through which we can look at the concerns of jobs, salmon, energy efficiency and alternative energy in the Northwest. He reminded those present of the story of Genesis, noting that, in that story, even before humans are created, before they are told to be fruitful and multiply and fill the earth, the birds and the fish are created, and God tells them to be fruitful and increase in number. Author Bill McKinnon points out that the one commandment we humans have taken to heart is the one that tells us to be fruitful and multiply; he suggests that, now that we've done that well, we move on to some of the other commandments, and allow, for example, the fish the opportunity to fulfill their commandment.

Schut urged Bonneville to increase the amount of alternative energy in its resource mix, and to use its powers to use its power to restore endangered salmon and to increase its investment in clean, renewable alternative energy sources.

Next up was **Burt Culver**, another private citizen, who noted that this is the 200th anniversary of Lewis and Clark's journey to the Northwest. He observed that if we could restore the Columbia's salmon runs to one-tenth of their levels when Lewis and Clark first encountered them, a tremendous economic boon would result. **Culver** further observed that, during last year's energy crisis, some aluminum companies laid off workers so they could sell their power allocations at a profit, placing their economic well-being ahead of that of their workers.

Patricia Sumption of Washington Conservation Voters said she has volunteered for 20 years to protect the state's fish, wildlife and rivers. My main point tonight is that nobody owes us a living, **Sumption** said; we have to make our own choices. We're all in this together; to have jobs, we need a healthy environment, a healthy economy and healthy communities that work together and care about each other. We can have all of those things, she said, if that is meant in a broad sense – if you think that means you get everything you want from this arrangement, that's not going to happen.

I know BPA is concerned about its economic situation, **Sumption** said; I say, have faith and have vision. I wouldn't be doing as much environmental volunteer work if I didn't have faith, she said; if we work together, we

can create the kind of region, and the kind of country, we all want to live in. I support the public interest proposal, she said; it will allow us to restore salmon runs, build renewable energy and conservation resources, and provide the reasonably-priced power we need to ensure economic health in the region.

The next commenter, who did not identify himself, noted that there are a variety of points to consider in this extremely complex decision; however, there are a number of constants over the past 20 years. First, he said, the economy is continuing to internationalize, and is becoming more and more competitive. Second, the Northwest continues to face relentless population growth -- the State of Washington adds 275 new residents per day who need to be clothed, housed, educated, employed and provided electricity. There is a finite supply of cheap power, he said, which means that all new resources are more expensive than the existing system.

Another constant is the fact that we have continued to push the environmental limits of our region, he continued, hence the number of Endangered Species Act listings and Clean Water Act violations we're seeing throughout the Northwest. For awhile, there was an encouraging growth in federal, state and industry support for the development of conservation and renewable resources; unfortunately, we became enamored of the market, and abandoned those programs, which would have saved us hundreds of millions of dollars during last year's energy crunch.

There are still some principals from the early days of the Northwest Power Act that we still need to embrace, he said. We need to manage for uncertainty and change; there will be wet years and dry years. We must invest in the long term, and we must be relentless about our investment in cheap, clean resources. We must learn to do more with less, he said; we need to learn to operate within our biological limits, and to integrate fish and power for a healthy environment and a healthy economy. Finally, he said, we need to diversify our economy and our skills, because salmon, people and industries can and must coexist in the Northwest.

The next speaker, **Justin Pideau** of Save Our Wild Salmon, said he wanted to reiterate the most powerful issue he had heard tonight – that people in our community care about the underlying values they would like to see BPA adopt – jobs, clean energy, salmon restoration. We want you to find a balance, so that we can have all of those things, he said.

Corey Freeman of the Northwest Sportfishing Industry Association described his organization and its membership; he said the NSIA and its members can understand and sympathize with joint utilities' and the aluminum workers' desire for stability. Since the collapse of the Northwest's salmon runs in the late 1970s, he said, our members have been searching for stability as well. We want to see salmon return to the Northwest in numbers that will allow us to be economically viable as well, **Freeman** said, given the fact that the industry I represent has lost over 25,000 jobs in the last two decades. We see this process as an opportunity to correct government policies that have largely failed to recover salmon, he said. The members of the Northwest Sportfishing Industry Association urge BPA and the Council to adopt the public interest proposal, **Freeman** said.

Heather Rhoads-Weaver, representing Northwest Sustainable Energy for Economic Development, a renewable energy consortium, described a brand-new study of the Northwest's renewable energy potential produced by her organization. She noted that NWSEED has launched a website to provide the region access to that report. She encouraged BPA and the Council to review this report and incorporate its findings into the coming decision on the future role of Bonneville Power.

Jan James, a private citizen, said that, 40 years ago, few people thought about ecology. Today, however, we're all thinking about ecology, because the changes to our environment are now affecting human life, not just lower life forms. She referenced China's lack of ecological concern, then noted that, here in the Northwest, we know better now. I'm also concerned about national security, she said, but if there are windmills all along the Columbia, how could a terrorist bomb them all? I would also say that we do need to make a long-term commitment to renewable power, said **James**.

4. Closing Remarks.

Karier reminded those in attendance that notes from tonight's meeting will be available on the BPA website; he thanked everyone for taking the time to think and comment about these important issues. He noted that the six public meetings on the future role of Bonneville will conclude on September 30; all written comments on this

issue must be submitted to Bonneville or the Council by October 18. All of the proposals received in the course of this process will be posted to the Council and BPA websites.

Once all proposals and comments are received, said **Karier**, the Council will prepare its recommendations to Bonneville on behalf of the four Governors. Bonneville will take all comments received, together with the proposals and the Council's recommendations, and begin to formulate its draft proposal for the region to consider. This proposal should be available for regional review and comment by early 2003, said Karier. At that time, there will be another round of public meetings and another public comment period on that draft proposal, he said. After that, Bonneville will produce a final draft of its proposal and will publish its record of decision on this issue. With that, the hearing was adjourned.