Bonneville Power Administration
PFR Management Level Discussion
Topics: Transmission Acquisition, Conservation, and Renewables

February 23, 2005
Room 122, BPA Headquarters, Portland, Oregon
Approximate Attendance: 40

[The handouts for this meeting are available at: www.bpa.gov/power/review.]

Opening Remarks

Paul Norman (BPA) welcomed managers to the Power Function Review (PFR). We want to go over the nine categories of BPA's costs generally so we are all grounded for the discussion, and today we'll talk specifically about three of the categories, he said.

BPA had a large rate increase in 2002, and rates have not gone down, Norman acknowledged. Customers are interested in seeing rates go down, and others are interested because our rates fund a lot of activities in the region, he said. "The stakes are high," and we want to provide ample opportunity for you to make input into the costs that go into our rates, Norman stated.

The PFR is taking place outside the formal rate case, he said. This is an opportunity to talk about costs and reach agreement, to the extent possible, about the levels – cost levels will not be part of the rate case, Norman explained. This process is very important to BPA because "once we set the cost levels, we intend to manage to them," he said.

Norman pointed out that the PFR is organized in three layers: technical meetings, management-level discussions, and regional public meetings. We've set up the meetings so the technical sessions occur ahead of the management discussions to give your staff an opportunity to provide you with background on the topics, he noted.

Briefing on PFR and Opening Workshop

We have heard that people find it hard to comment intelligently about costs when they don't know anything about where rates are going, Norman continued. We have a handout today that attempts to give you a simple picture of rates and where they might be headed under various assumptions, he said, adding that the numbers in the packet are to give context. This is where we are starting from "before we get good input from the PFR process," Norman added.

"This is the first time this information has seen the light of day," he said of a handout entitled "2007-2009 Power Costs, Credits, Risk: Overview." His explanation began with a formula of the rate calculation in its simplest form: Costs minus credits plus risk, divided by loads, equal BPA's rates.

As a point of reference, BPA's average 2002-2006 PF rate is 31.5 mills per kWh, Norman said. The revenue recovered through that rate is expected "to fall somewhat short of covering actual net expenses," he pointed out. Over the five-year period, we estimate we will fall about $250 million short and will use reserves to cover costs, Norman reported. He went over a list of major changes in costs and revenues from the current to the upcoming rate period, including expiration of the augmentation purchases, changes to the IOU residential exchange and DSI service, higher PF loads, higher O&M costs, higher debt service costs, expiration of long-term surplus sales, and an assumption that 2007-2009 will yield average water.

In summary, average costs to PF load, without risk mitigation, are forecast to fall from 31.5 mills per kWh in 2002-2006 to 28 mills in 2007-2009, Norman stated. "Setting risk aside," there is a 3.5 mill per kWh drop, he said. "But risk is a big issue," Norman stated. We will have lower reserve levels and much higher volatility in secondary revenues, he said. There is a range of approaches to risk, and depending on the approach, it could more than offset the average cost decrease, Norman said. Risk will be "a huge focus of the PFR and the rate case," he stated.

With regard to costs, credits, and loads, total annual costs are expected to be $230 million per year lower in 2007-2009; annual credits and non-PF revenues are expected to be $435 million per year lower in 2007-2009; and the total PF load is expected to be 1,500 aMW higher, Norman said. Changes in the price for secondary generation and the market forecast for IOU benefits could significantly increase or decrease the 28-mill projection, he added.

We have to deal with risk mitigation because setting rates just to cover expected costs minus revenues leaves the Treasury payment probability (TPP) too low, Norman continued. He recounted how risk has been addressed in the past and noted that in the current rate period, there were cost-adjustment recovery clauses (CRACs). In the next rate period, there are multiple factors driving risk, including low reserves, bringing the TPP target up from 80 percent to 92 percent, the lack of a fish cost contingency fund, high reliance on volatile secondary revenues, and an increase in power liquidity reserves (working capital), Norman explained. This is "our best shot" at what could happen – we see declining average costs, but a more serious risk mitigation problem, he summed up.

There were several questions about figures on the handout, which Norman clarified. Are you expecting to have CRACs? Steve Eldrige (Umatilla Electric) asked. "It's a huge question," and we don't have a position on it right now, Norman replied. The more fixed the rate, the higher it has to be in order to mitigate risk, he added.

Steve Marshall (Snohomish PUD) said he would like to see the IOU benefit issue left open to discussion, perhaps with a ceiling put on the costs. Where do we see the lost revenues due to fish operations? Fred Rettenmund asked. They show up in the lower secondary revenues and the higher purchase costs, Norman responded. We've heard that the Corps has about $300 million in study costs that are going to go into rates at some point, Jim Litchfield (LCG, Inc.) said. Where do they show up? he asked. We've made the conservative assumption that all of those dollars will become plant-in-service and go into rates during the next rate period, Norman replied.

Does the 28 mills include any planned net revenues for risk? asked Geoff Carr (NRU). No it includes none, Norman said. He suggested people continue to review the handout, discuss it with their staffs, and come back with questions and comments.

There is an expectation rates will go down, but with risk factored in, they may not, Norman stated. This is a major opportunity to look hard at every line of costs and ask whether every line item is as low as possible, consistent with BPA meeting its obligations, he said.

<u>Opening Workshop</u>

Norman reviewed the handout from the PFR opening workshop, highlighting the desired outcomes and the list of nine categories of BPA costs. He went over the list of decisions that will be made in the rate case, not the PFR, and the breakout that compares expenses (actuals and projected) from the 1997-2001, 2002-2006, and 2007-2009 rate periods. Norman noted that page 22 is the start of several pages that explain each cost category, with what is expected to change, the risks, and opportunities for reductions. We want to give you the level of understanding that you want about our costs and get your input about what is the lowest level of cost possible in each category, consistent with meeting BPA's objectives, he said.

Norman related a number of "process concerns" he has heard, adding that he has also received positive comments about the process and information that has been provided. People have said they can't comment intelligently on costs unless they know where we're going with the rate, and we've addressed that this morning, he indicated. We've also heard people say BPA needs a management target, with a cap on how high rates can be, Norman said. We're talking about that and would welcome your input, he added. We have also heard frustration about the number of processes and forums, and people have suggested at the end of the PFR, we sum things up in a proposal and take comment on it, Norman said. We're thinking that seems reasonable, but it will take more time – we're thinking about it, he said. And we've also heard the suggestion that we not nail costs down, that we leave them open so if things change, they can be adjusted, Norman said. We would use costs as a risk-management tool, he elaborated.

Norman asked people around the table to comment and relate their concerns. Along with many compliments on the process and quality of information, these are the highlights:

Randy Gregg (Benton PUD): We're concerned about the direction things are going – 31 or 32 mills is high, and we need to roll up our sleeves and work on getting the costs down. We should set a target about where we need to go.

Paul Davies (Central Lincoln PUD): The figure you've put out is higher than we would like to see. We are a pre-subscription customer and will already be going from 21 to 32 mills. I'd say be flexible about your costs – anything over 32 mills would be hard to take.

Jason Eisdorfer (Citizens Utility Board): I understand the frustration about the multiple forums, but the fact BPA is opening things up to let people look at the costs is a rare opportunity, and we ought to make the best of it. In getting to the lowest possible cost, we need to look at programs on a sustainable basis, and we need to think beyond 2007-2009.

Michael Early (Columbia Falls Aluminum): There is an expectation among customers that rates need to go down. You need to have a target so we know where we are trying to go. I'm concerned about not getting to the risk issue until April 18, which is late in the process. It is a big issue, and we may need to get to something that we haven't done before to solve it. If we need to do something different, let's do it.

Kevin Owens (Columbia River PUD): If I were doing this, I'd work with managers in the utility to get at a rate target. It would be a healthier process and the dialogue more meaningful if we heard that BPA has to live within its means. Leaving this open-ended makes me nervous.

Frank Lambe (Emerald): If we don't have a rate decrease at the end of this, it is unacceptable.

Doug Smith (Grays Harbor PUD): I like the idea of a straw proposal at the end of the PFR. We are looking at a total package – leave as much cost on the table for discussion as possible.

Fred Rettenmund (Inland Power): I hope BPA will help us see where the discretionary costs are; pull these out more so we can see the choices and where we can affect costs. When we look at a program, we need to see the debt costs so we have the whole picture.

Scott Brattebo (PacifiCorp): I'd like to see an exercise where we ask, what would the agency look like if we cut $200 million or $300 million? It may be productive to have staff consider if they had to make cuts, what would their department look like. Focus the discussion on areas where change can occur.

Rick Knori (Lower Valley): Set a target and then go back through all of the numbers. It may be that you need to look at changing your depreciation schedule for some things.

Wyla Wood (Mason 3): I take you at your word that you will be listening. As utilities, we are learning to live within our means – good things have been cut. You need to do the same thing.

Paul Elias (McMinnville): I'm alarmed about the possibility of sustaining current rates without a decrease. Your augmentation costs will go down by $640 million. I need to understand why, without those augmentation costs, you could still be at the same level. My commitment is to work hard to understand that.

Nancy Hirsh (NWEC): When you lay out the straw proposal, it would be interesting if you have some “what ifs” – if this piece changed, what would it mean? I want to see what’s changeable and flexible. I’m surprised about how much cost is fixed. Keep in mind the legal obligation BPA has for things other than power – it’s an issue for BPA in other parts of the country. The more reckless we are here at driving down costs, the more vulnerable we could be nationally.

John Saven (NRU): It’s a good exercise for BPA to advance a proposal before the costs are set. I’d also suggest we make this visible to the entire public – some may be oblivious to what the costs are, so I’d suggest you get this information out to the public. It’s essential to have a target with the risk included in it. We also want to know what BPA’s mandatory costs are versus those over which the agency has control. The information helps us to think about our future relationship with BPA.

Joe Nadal (PNGC): We would like to see a strawman and a target for rates. It would be helpful to know what BPA thinks are the main tradeoffs and where the flexibilities are – bring those forward and highlight them. We would like your analysis of risk earlier in the process so we could see the dollar impact and whether there is wiggle room. The CGS, Corps. and Bureau costs jump out from the budget because of the increase –we’d like to drill down into those costs and maybe get representatives from those agencies here to explain the increases.

Kevin O’Meara (PPC): Since you will be relieved of the burden of the costs related to augmentation and the power crisis, it’s incomprehensible how BPA could suggest there could be a rate increase. This will not be a successful process if there is not a rate decrease.

Jorge Carrasco (Seattle): The idea of setting a target rate is desirable – I like the idea of knowing the tradeoffs. It isn’t clear what tradeoffs could be made by managers to get to lower numbers, and I would like to see those. I also like the idea of seeing a strawman at the end of the process. It looks like some costs are just handed to you – does BPA have discretion over those costs? A lot of the costs go beyond BPA, and I’d like to know what discretion you have. Risk is a big issue – we have to deal with uncertainty and figure out how we can hedge against it.

Steve Marshall (Snohomish): There is an expectation costs will go back down, and it will be alarming if they don’t. The point of this process should be to get to long-term take-or-pay contract commitments. The question is whether we could enter long-term contracts without the proper cost controls in place – we can’t just write a blank check. We need to look at specific departments and set the targets. It isn’t easy to cut costs, but we can help you to do that if you need help. The only way to prevent the threat posed in the President’s budget is through long-term contracts, and we need to focus on how we can get there.

Steve Eldrige (Umatilla Electric): There are some framework issues I hope we address: what would BPA have to look like for us to have a 20-year contact? You referred to making costs as low as they can be while still accomplishing your objectives. Who sets those objectives? You also refer to being below market – BPA's rates should be compared to the cost of generation, not to the market. It may be that a three-year rate term may be too risky, and I hope we vet that.

Ralph Williams (United Electric): With regard to cost cutting, we need to ask, is there a better way to do business that will end up with lower rates? Last time BPA set rates, we were facing deregulation and decisions were made on that basis. I'd challenge senior management to see if synergies could be gained by bringing the power and transmission sides of the agency back together. Can we make the rate simpler? I'd admonish us as we look at a rate going forward, can we make it simpler?

Tom Karier (NPCC): We are starting with a price of about 31.5 mills, and the cost decreases due to the energy crisis, drop us about 7 mills. It looks like half of that comes back in other expenses, without incorporating risk or pressures from new fish and wildlife costs, such as those associated with the Biological Opinion (BiOp). I'd like to see BPA build in institutional efficiency. Set clear performance goals that are widely accepted – these have eluded BPA. Once you have these goals, you can decide on the costs. You also need to consider accountability.

Jim Kempton (NPCC): I'm concerned about where we go with F&W spending relative to the subbasin plans and the BiOp. The Council is looking at those costs and trying to come up with a way to evaluate and perhaps eliminate programs that have served their usefulness. The PFR will help to define those costs.

Norman recounted the key points and offered some responses. With regard to the rate decrease, "we will try to accomplish that," he said. We haven't made the call on offering a written proposal at the end of the PFR, but it seems reasonable, Norman added. We're trying to get to performance goals and accountability in all parts of the budget – it's hard to do in some areas, but I agree we need to, he stated. With regard to the costs from other agencies, we work with them on their budgets, and representatives will be here to talk to you, Norman said. "I totally agree" we should simplify our rate structure and that there is a relationship between our costs and long-term contracts, he said. We are actively pursuing regaining the synergy between the power and transmission businesses, Norman summed up.

Transmission Acquisition Program

Margaret Pedersen (BPA) gave an overview of PBL's transmission acquisition program, which involves purchasing services from TBL and third-party providers. The $189 million annual cost of the program is associated with transmission to deliver energy from resources to markets and loads, generation integration costs associated with Corps and Reclamation transmission facilities, and metering and communication requirements, she explained. The primary goals of the program are to determine and acquire the least-cost mixture of long-term and short-term transmission products that can meet the needs of PBL's secondary energy marketing strategy and to meet the agency's transfer service obligation, she said.

Pedersen described the five components of the program and showed a bar graph of relative costs associated with each: transmission and ancillary services, transfer service, third-party transmission and ancillary services, reserves and other services, and telemetering/equipment replacement. She noted there is a $33 million increase in program costs from 2004 and the projections for 2007. Most of that increase is related to transmission purchases from TBL, which has instituted a 13 percent rate increase, and some is associated with transfer service and load growth, Pedersen explained.

With regard to where there may be opportunities to reduce costs, Pedersen pointed out that the largest component, transmission and ancillary services, varies depending on secondary sales and is managed for least cost. There is not a lot of room to bring costs down with transfer services, third-party services are fixed, the cost of reserves is set by TBL, and there is about $1 million in "wiggle room" in telemetering/equipment replacement, she said. The purchases are managed closely – I don't see a lot of room to reduce the cost forecast, Pedersen summed up.

Management is key, Norman agreed. I don't see a lot of policy calls that could change the costs, he said. The transfer service is a policy call – we absorb those costs in power rates, he said.

Another policy call is to purchase long or short term, Early said. How often does it happen that you have more long-term product than you need? he asked. We look at this on an annual basis, Pedersen responded. We sometimes hold transmission for short-term sales, she said. We have not remarketed short term, but we are looking at that, Pedersen stated. The other side of that risk is buying too little long term, Litchfield commented.

Marshall noted that if PBL can help TBL manage its costs, it helps reduce the agency's overall risk since it shores up reserves. We have an incentive to help TBL keep costs low, Norman replied. He also noted that the TPP would be calculated based on PBL reserves only, not the total agency reserves.

What is the thinking on reintegrating the two parts of BPA? Karier asked. We expect to keep the functional split in rates, Norman said, but we are looking at eliminating costs in duplicate functions. We expect to realize savings in this rate period, and before the PFR is over, you'll see reductions in internal costs as a result, he added.

I expect you may have comments, but I don't know how fertile this ground – transmission acquisition – is for cost cuts, Norman wrapped up.

Conservation Program

Conservation is an example of a topic where there are multiple decision forums, Norman acknowledged. The conservation staff has been working on what BPA's conservation program will look like post 2006, and we've had a work group on that, he explained. "We've had a two-ring circus going," but the budget decisions will be made in the PFR, informed by what's going on in the work group, Norman stated.

John Pyrch (BPA) went through a handout describing BPA's conservation program, including the principles that are guiding the work group in developing the post 2006 conservation program. BPA is on schedule to meet a 220 aMW target during the 2001-2006 period, with 40 aMW planned for 2005, he said. That leaves 22 aMW to attain in 2006 to meet the target, according to Pyrch.

BPA is basing its conservation target during the next rate period on the Northwest Power and Conservation Council's power plan, he explained. BPA's share is 40 percent of the total 700 aMW, which breaks down to 56 aMW per year, Pyrch said. Marshall asked the basis of BPA's conclusion that its share is 40 percent, and Pyrch responded that the figure is based on the 2003 White Book information about firm loads. The figure may need to be updated, he added.

Pyrch explained a graph of BPA's annual delivered conservation savings and targets. Conservation fell sharply from 1997 to 2000, when BPA stepped out of the conservation business, he noted. The amount delivered began increasing in 2001, when BPA began ramping up again, Pyrch said. If we hit 40 aMW in 2005, we will need 22 aMW in 2006, but with the new Council targets, I'm concerned about having a dip – "conservation isn't something you just stop and start," he explained. You lose the infrastructure, and it's hard to recapture it, so we'll likely set a target next year of 40 aMW, Pyrch said.

Conservation didn't stop in 1997, Eldrige said. People continued to buy more efficient appliances and other things – the baseline is never zero, he said. This graph gives the impression that because BPA was not spending, nothing was happening, and that's not true, Eldrige said.

This graph just shows the decline BPA experienced, Pyrch said. But the region went the same way, Ralph Cavanagh (NRDC) stated. Over the three years, 1998-2000, there was a dip, Tom Eckman (NPCC staff) agreed. We do a survey of the region every two years, and the region as a whole tracked with BPA, he said.

Did you count what utilities are achieving outside of the BPA funding? Marshall asked. No, that's not in here, Pyrch responded. So isn't the 56 aMW overstating BPA's share? Marshall asked. If individual utilities are doing more than is reflected here, shouldn't BPA get credit? he asked. BPA would meet its goal faster if it were counted, Marshall pointed out.

We are in the process of trying to track that conservation, Mike Weedall (BPA) said. We agree with your point, Norman added.

Do you have a projection of what you would achieve if you continue along with your current program? Saven asked. We can put that together, Pyrch responded.

If your goal is to achieve all cost-effective conservation, 22 aMW isn't it, right? Cavanagh asked. That's true, Pyrch answered. And BPA didn't have a quarrel with the Council's target, did it? Cavanagh asked. We have been part of the vetting process, Weedall agreed.

What is there for the PFR to discuss here? Bill Drummond (WMG&T) asked. We have a target "set in stone" by the Regional Dialogue, so what is still up for discussion? he asked. This is the decision forum for the costs – we have 40 percent of the Council's conservation target, but how we achieve it and the amount of money that should be in rates is still up for decision, Norman responded.

I commend BPA for setting a target and designing a program to get there, Karier said. The Council has voluminous information about why it came up with the target it did, he added.

Early noted there is a statement in the handout that indicates the target could be adjusted for "naturally occurring" conservation. Our staff is working with the Council on that now, Pyrch replied. What if the Council overestimates the naturally occurring conservation? Hirsh asked. Could there be a move upward for the program? she asked. We assume if the Council makes changes, we can change our targets, Pyrch responded.

At one end of the spectrum is BPA's obligation to achieve 56 aMW and BPA puts together a program to get there – the other end of the spectrum is for utilities to say they will do the conservation, Litchfield commented. The question is, where is the appropriate split between BPA and the utilities, he said.

If the utilities came forward with a credible plan to acquire all 56 aMW, would you drop your program to zero? Gregg asked. Our goal is to ensure that it's achieved, Norman said.

We have been through that scenario, Hirsh pointed out. I'd be very concerned if BPA backs off the 56 aMW – we've been down that path, and it didn't work, she cautioned.

There is a way to do this using the C&RD credits – make them tradable, Karier suggested.

The BPA program would accomplish more if we didn't have to worry about being decremented, Marshall said. That's an unintended consequence of doing conservation – if you cut back, then you lose, he said.

The decrement is a big issue with us, Smith agreed. If we do conservation, we may want to offset a more expensive resource than our BPA purchase, he said. It's a disincentive to do conservation with BPA funds, Smith stated.

We are concerned about the disincentive with the decrement, Hirsh agreed. We will address that issue, Pyrch said.

He continued through the conservation handout, providing a historical perspective on BPA's program, components of the cost, and the list of challenges and risks. With regard to BPA being a "backstop" if utilities fail to deliver the conservation target, Eldrige said he did not support "wiring in" the backstop, which would likely be a rate increase.

We are concerned about a failure to acquire conservation, Hirsh said. BPA has budgeted at the low end of what it has cost in the past for acquisition, she pointed out. We would argue that BPA should live up to its commitment to get all cost-effective conservation – if BPA doesn't meet the target, "we're leaving things on the table," she stated. I thought this group was interested in keeping costs down, Steve Weiss (NWEC) said. This is the cheapest resource around, and we should make sure we get it all, he said. I don't think we should agree to a rate increase to achieve the conservation target, Eldrige reiterated. We are trying to work on an allocation that would get BPA out of fossil fuels completely, O'Meara said. We are developing a mechanism to do that, he added.

Some of the backstop language may have come from a joint customer proposal, Litchfield said. It doesn't mean there would be an automatic rate increase, he said. The idea is, if utilities go out and get conservation, they get the C&RD credit; but if they don't, BPA keeps the credit and uses it for conservation purposes, Litchfield explained.

We are pessimistic about the amount of budget allocated to achieve the conservation target, Karier said.

Let's keep the $80 million in perspective, Carrasco advised. It is a very small percentage of BPA's total budget. I assume the programs BPA funds are working well – they are at Seattle City Light, he said.

Saven said he had signed on to a letter to BPA regarding the conservation target. I think the target is reasonable, but if we can't achieve it for some reason, let's revisit the issue, he recommended. I would like to reserve the right to revisit it – the solution may depend on what the rate is, Saven indicated.

The rate shouldn't be thought of in terms of just dollars – it's also the value of what you are getting, Eisdorfer said. A rate that includes conservation programs has value, he said.

Smith raised the issue of cost-effectiveness and whether BPA's program is eliminating things that are cost-effective. Our definition of cost-effective is what is in the Council's plan, Pyrch said, noting that the Council plan provides a list of measures that are cost-effective. Weedall said the work group was looking at packages of measures as another possible way to get at cost-effectiveness.

Local control is a big issue in getting participation, Marshall said. It's not just about money, it's about the visibility of the programs in the community, he said. The C&RD program is good, and "any changes that would centralize the program are unwelcome," Marshall stated. We hear that – one of our five principles goes to what you suggest, Weedall replied.

Hirsh raised the question of whether the IOU conservation programs would be factored into the target. Norman restated the issue: if the IOUs receive about $10 million through the C&RD, should their conservation be counted toward BPA's goal, or, if not, does that leave BPA with only $70 million of the $80 million budget to achieve 56 aMW. Why would BPA even consider a change like this? Lynn Williams (PGE) asked. It's a mystery to me why you would give the C&RD to the IOUs, but not count the MWs of conservation, she stated.

If money is being spent in the IOU service territory, then it seems you should count the MWs, Ralph Williams said.

The Council did not say how to divide the conservation target among utilities, Karier pointed out. If you include the IOUs, BPA's share would go to 45 percent, he said.

Litchfield pointed out that if BPA collects the $80 million conservation budget as a revenue requirement, everyone will pay and will want something back. If you use the C&RD, there's a different sense about the equity of it – you need to pick a path and things will fall into place, he advised.

In terms of how you establish the credit, I'd like to see things continue to be based on the value to the system, Smith said. Why pay costs in excess of value to the system? he asked.

Pyrch concluded his presentation by reviewing the recommendations and program structure suggested by the conservation work group. He noted that over 65 people were involved in that process. Pyrch indicated that BPA is using this as the foundation for its post 2006 conservation program proposal.

We are looking for ways to achieve the conservation goal and for opportunities to achieve the goal at lower costs, Norman said. He recapped the comments and suggestions, including: take credit against the 56 aMW with what the publics are achieving "on their own nickel"; look at naturally occurring conservation, but be wary of overestimating; consider the decrement issue – a decrement can discourage utility spending on conservation, no decrement can encourage utility spending; and allow trading credits in the C&RD program. I heard risks issues, including the adequacy of the proposed budget to capture 56 aMW annually; loss of utility participation if the program is constrained;

IOU participation in the discount being handled differently; and BPA providing a backstop for utility spending.

I thought you committed to the Council's target, which is effective now, yet you don't start the effort until 2007, Weiss commented. BPA is already going to be behind in achieving the goal, and "you ought to catch up," he advised. The value of the conservation revenue is not captured explicitly, Weiss said. If you calculate the benefit and display it, you may find conservation already pays for itself, he said. You should calculate the value of the conservation against the costs, Weiss recommended.

I would like to see what the current program would yield, Saven reiterated. Karier said big questions are whether to adjust the target to include the IOUs and what BPA can achieve with the programs it proposes. He said sticking with the standard of basing the discount on the value of a measure to the system is the better way to go.

What has been the cost of a MW of conservation over time? Lynn Williams asked. Grist said the figure varies between $1.5 million to $2.2 million per MW, depending on the year – "it's been very lumpy over the last 10 years." BPA is proposing to spend a lot less than that per MW – the target is up 40 percent, and the budget is flat, he pointed out.

Carrasco said any implication that BPA ought not to be spending on conservation goes against the success of the programs. These programs are effective, he said. In terms of the conservation program, Carrasco recommended BPA think about whether changes proposed to the C&RD makes sense, err on the side of providing flexibility for local control, and consider whether $80 million is the appropriate funding level. He cited several positive accomplishments of the C&RD program, noting that only one utility chose not to participate. There might be concerns about the money, but the results are worth it, Carrasco stated.

Your summary emphasized cost control, but there were comments on the other side too, Hirsh told Norman. I'd like you to go away giving equal emphasis to that side, she said. Our philosophy on this is to stick to the target and then see what is the lowest-cost way to meet it, Norman responded. There are three steps here, Karier added: set performance standards, achieve them cost effectively, and provide accountability.

Renewables Program

Elliot Mainzer (BPA) said he had two aims with his presentation on BPA's renewables program: I want you to understand how we manage renewables and to go through what we've forecast for the 2007-2009 period. After noting the financial disclosure statement, he laid out the history of BPA's renewable program, listing the acquisitions made from 1977 to the present, and he went through the strategic objectives and where the $56 million program fits within the power expense structure.

BPA is not in the acquisition mode, but is taking on a facilitation role with renewables, which includes offering wind integration services, he said. BPA purchases 198 MW of wind power and funds valuable research, Mainzer said, adding that wind purchases and program costs total $23.6 million per year. Revenues from the sale of the energy plus green premiums offset the costs, and the program is expected to have a net gain of $84,000 in 2005, he reported.

Mainzer outlined the $21 million per year management target for the program, explaining how BPA calculates program costs and noting the total includes $6 million for renewables that utilities pursue through the C&RD. Mainzer pointed out that the program values renewable energy against the long-run marginal cost of power from a gas-fired combined cycle combustion turbine, with gas prices at $4 per MMBtu. He also went over the details of the renewable budget, beginning with 2001 and projecting through 2009.

Costs of the 49 MW Fourmile Hill geothermal plant are a big variable in the budget, Mainzer said. BPA is in arbitration with Calpine, the developer, because the company failed to meet a deadline for proving out the steam, he explained. The arbitration will clarify BPA's rights with regard to the future of the project – for now, BPA is assuming the costs will go into rates in 2007, he clarified.

Mainzer went over additional details in the budget, explaining the relationship and funding arrangements between BPA and the Bonneville Environmental Foundation (BEF). An MOA signed with BEF makes our relationship more businesslike, he said. In summing up the information on the table, Mainzer said the net cost of BPA's renewables acquisitions is negligibly above market. Or another way to look at it is, BPA's rates are so far no higher with the renewables program, he said.

There were some questions to clarify the details of the budget, then Mainzer continued through the renewable forecast, details of the BEF MOA, the 2002-2004 cuts in the renewables program, and uncertainties, including the Fourmile Hill arbitration. Is it possible you won't complete Fourmile? Brattebo asked. It's possible, Mainzer answered. Among other uncertainties, Mainzer mentioned the structure of the C&RD program and whether conservation and renewables will be separate or combined, as they are currently.

The big question is Fourmile Hill, Early pointed out. Why have you assumed Calpine will come forward with the full amount in 2007? he asked. Being conservative, Mainzer responded. We hear you suggesting we do a different forecast and take the project out, at least for 2007, Norman commented.

I'd highly recommend we take Fourmile out of the projection for 2007-2009, Saven stated. I can't imagine there is a reason we can't make the decision to do that, he said. At a minimum, we'll try to resolve the online date, Mainzer replied.

I appreciate the line item for renewables support, Hirsh commented.

We have renewables portfolio bills before the legislature in Washington, Marshall pointed out. We should be careful we don't get two competing mandates on renewables, he said. The bills don't define hydro as renewable, Marshall added. If you have any influence, it would be good to see about making input that would keep the bills consistent with the Council's plan, he said.

I'd urge you, if you could, to get the Fourmile question resolved within a few months, Randy Hardy (Hardy Energy Consulting) said. It has implications for other decisions, including transmission, he said.

The main variable this category is cost of Fourmile Hill, Norman wrapped up. We're hearing the suggestion that we could at least slip the date for when the project goes into rates, he said.

We have "a marathon meeting" March 16-17, Norman said in concluding the day.

The meeting adjourned at 3:40 p.m.

Follow-up questions and information requests:
Responses to questions and requests for information received throughout this process will be posted on the Power Function Review Web site on a ongoing basis. The Web address is www.bpa.gov/power/review.

1. In regards to Conservation, do you have a projection of what you would achieve if you continue along with your current program?