Bonneville Power Administration
Power Function Review Regional Meeting
April 14, 2005

Mountaineers Headquarters, Seattle, Washington
Approximate Attendance: 15

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

Introduction

Paul Norman welcomed participants to the Power Function Review (PFR) regional meeting. He said he would do a brief overview of the PFR and then move to Q&As and comments. The purpose of this process is to make sure the costs on which BPA will base its rates are as low as they can practically be and still assure that BPA achieves its mission, Norman stated. We want the thoughts and insights of those with a stake in our costs to make sure they are where they should be, he said.

Norman went over a 10-year BPA rate history, noting that rates jumped from 2001 to 2002, and have since come down a little. The question now is where will they go for 2007-2011, he said.

Norman explained that BPA will be doing a rate case to set power rates, but costs are not part of that process. We decide costs outside the rate case, he said, referring to an equation on the Rates Overview page of the meeting handout. The risk *discussion* is part of the PFR, but the risk *decision* will be part of the rate case, he clarified.

Norman moved to the graph displaying BPA's forecasted expenses for 2007-2009. In the PFR, we have been drilling into these categories of cost to explain what they are, why they are growing, and identify opportunities for bringing them down, he explained.

If you take all of our costs and subtract the secondary revenue, which can be "extremely variable," you get a rate of about 28 mills, Norman continued. But a rate of 28 mills would only give us a 50 percent Treasury payment probability (TPP), he said. The question is, what does it cost to mitigate the risk, Norman stated. One approach would be to have a lower variable rate that would change, depending on revenue, and another approach is to have a much-higher fixed rate, he explained. Risk is a big driver of where the rate will end up, he stated.

We are coming out of period of large purchase power costs, and people have asked us, if these costs are going away, why can't we return rates to historic levels, Norman went on. We are dedicated to making rates as low as we can, but there are things that have changed since 1997 that would make that difficult, he said. Norman listed five key factors that are pushing costs up: the investor-owned utility benefits, up from $70 million annually in 1997-2001 to $300 million annually; F&W program costs that increased about $120 million annually; 3,000 additional megawatts in public utility load; increased O&M and debt service expenses; and conservation and renewables costs "that were hammered down in 1997-2001" are back up.

Moving to a comparison of the 2002-2006 period with the upcoming 2007-2009 period, he said resource augmentation costs of about $600 million are going away, but there are offsetting expenses. Without a risk adder, costs to our preference customers are expected to fall from an average 31.5 mills in 2001-2006 to 28 mills in 2007-2011, but low reserve levels and higher volatility in secondary revenues increase the rate allowance needed for risk, Norman indicated.

The next couple of pages are a condensation of what has come out of the PFR so far, he said. We have listed potential changes we could make, mostly cost reductions, Norman said. "I am confident that the costs coming out of the PFR will be lower than those going in," but I can't say by how much, he added.

On May 2, we will put out proposed changes in our costs, Norman said. We will take three weeks of comments, then once we digest the comments, we will put out a final PFR closeout in June, he wrapped up.

Norman explained an item in the conservation list, saying BPA agreed to meet the Council's target for its share of regional conservation. It was suggested that we count toward that target the conservation that utilities are funding on their own, Norman said.

To illustrate this issue, Jean Ryckman (Franklin PUD) said Franklin established a five-year goal under BPA's conservation and renewables discount (C&RD). We achieved our target within two years, and at that point, rather than stop, our board chose to continue the conservation efforts, she said.

Patton said the Franklin example is encouraging. But the Council's analysis and Green Book do not show this is happening in many places in the region, she said. BPA is still legally responsible for meeting the load growth in the region and for meeting the conservation associated with that load, Patton said. That would make BPA's target about 70 MW instead of 52 MW, she added. C&RD does not get at all of the conservation potential that exists in the region, Patton added.

Franklin is a Full Requirements Customer, and if we are spending money on conservation, BPA should be given the credit, Ryckman stated.

Given that the Council's analysis of what is cost effective is a considerable increase over what the region is doing, "it seems silly" to talk about doing that, Patton commented.

Norman pointed out that the conservation workgroup recommended increasing funds for administrative costs and infrastructure, and we've noted an $8 million increase on the list of suggested changes in costs.

Mike Little (Seattle) asked how the workgroup recommendations were processed. "They went into the black box," and I wondered what happened to them, he said. We lined up the recommendations, talked about them, and we said yes to a lot of them, Norman replied, noting that BPA changed its mind on some things, including decrementing, based on the recommendations. From my point of view, we said yes on a lot of workgroup recommendations, he stated.

If you decrement utilities, you should net out the revenue from selling the conservation resource you gain and credit it toward conservation costs, Patton suggested.

Little asked how the conservation proposal that was just released meshes with PFR. The PFR is the process for deciding the conservation budget for the rate case, Norman responded. The comments we receive on the conservation proposal will influence our May 2 budget proposal for the rate case, he added. Other aspects of the conservation program that are mentioned in the paper will be decided elsewhere, but the budget will come out of the PFR, Norman said.

I've never seen the value in conservation, meeting participant Paul Locke stated. There is no generating capacity gained – it's just making better use of what you have, and I can't understand why we spend millions of dollars on it, he said. It gives BPA more energy to sell on the open market, and it's energy BPA gains without having to plan or purchase other resources, another participant responded.

The fundamental choice about whether to pursue conservation was made for us by Congress, Norman said. If it costs less than other resources, Congress told us to acquire conservation, he added.

Public Comment

Jean Godden, Seattle City Council, thanked BPA for holding the PFR meetings and giving people the opportunity to offer their comments. She noted that the City Council works with a citizen advisory board and gets good advice on energy and environmental matters. We have a new City Light superintendent, and we are excited about the direction he is taking, Godden indicated. We'd like to be good partners with BPA, not litigants, she said. We appreciate that PBL and TBL have held their costs down to 2001 levels – "that has helped build trust with your customers," Godden said. I want to encourage you to make the right investments for our energy future – it's very important for stability and for the environment, she added. Thank you for thinking long term on conservation – some of the region's pioneering efforts were begun here, and we can be proud of that, Godden wrapped up.

We recognize the importance of the lowest-cost energy future for the Northwest, **Stan Price, Northwest Energy Efficiency Council**, said. The role of low-cost energy is fundamental to our economy, he stated. At issue is how to approach getting to that future, according to Price. I'm concerned about whether BPA is adequately funding the conservation that will get us to the lowest-cost energy future, he said. We applaud BPA for committing to its fair share of the Council's conservation target, Price said. But it is a higher target than you have had in years past, yet you have a lower budget, he pointed out. Your budget suggests you can reduce spending and still meet the target, but I haven't heard a way to do that, Price said.

If we gamble on whether we can achieve the conservation target, we add more risk, he said. If we miss the target, BPA will spend more in low water years to buy energy, and BPA will also miss out on energy it could sell, according to Price. I am "distressed" to hear conservation referred to as adding to the budget since it is the lowest-cost resource out there, he said. We know that spending on conservation adds to costs, but if you think long term, not spending will lead to a higher-cost energy future, Price said. It isn't reasonable to assume you can achieve a target that is 20 percent more ambitious with a flat budget, he stated.

Richard Sorenson, University Heights Center, described how the non-profit center had benefited from Seattle City Light's retrofit program. After a ballast exploded and signaled the need to replace aging light fixtures, we were able to convert to fluorescent lighting with a $17,000 rebate from City Light on a $50,000 expense, he said. We are also saving on our energy bills, Sorenson stated. Would you have done the project without the help from City Light? Ryckman asked. No, Sorenson said. Along with providing the rebate, City Light was able to help us arrange the financing, he added.

Ed Henderson, Mountaineers, said his organization has "a long proud history of environmental activism." With global warming and climate change, we are very mindful of the role played by production and use of energy, he said. BPA has "a golden opportunity" to have a positive impact, Henderson said. All projections point to growing demand for energy, and you are obligated to buy conservation and renewable resources to meet it, he said. But BPA's conservation budget is inadequate to meet its goals, Henderson stated. You should aim to acquire 70 MW – it's money well spent, he said. BPA should also continue to promote renewables, Henderson added.

We are very concerned about the priority for F&W, he continued. BPA is legally bound under the Northwest Power Act to give power and F&W equal priority, Henderson said. Opinion polls show strong support for funding to meet this obligation, he wrapped up.

Sara Patton, NWEC, thanked BPA for the processes that allow people an opportunity to participate in its decisions. With regard to energy efficiency, we are concerned about meeting the goals with funding levels so low, she said. BPA is legally obligated to meet the load growth of utilities, so your conservation goals should be based accordingly, which would put the goal at 70-72 MW, rather than 52 MW, Patton indicated. We are worried about whether you can get that amount at the budget level you have committed; a more realistic budget would be $99 million to $100 million to achieve 52 MW and $133 million to achieve the more appropriate goal of 70 MW, she said. Investment in conservation is a risk strategy, according to Patton. We need to get energy efficiency now and forego the Montana coal plants, she said. If your conservation staff can achieve the target for less, don't spend all the money, Patton suggested. But it's a big gamble not to budget more, she added.

If you decrement utilities, you will get revenue for the decremented load, and "it is only fair to show it as an offset" to the cost of energy efficiency programs, Patton said. We commend BPA for its continued commitment to low-income weatherization – thanks for taking it seriously, she said. We are happy you have participated in renewables projects, but we're worried about BPA just carrying forward with the $15 million from the last rate period, Patton stated. We think that would be minimal, she said. We think you need to make investments in renewables to avoid the spikes in fossil fuel prices, Patton said.

In terms of risk management, we think it is important for you to have the Safety Net CRAC, she continued. It was vital in this rate period to help you meet the TPP, Patton said. The $139 million for your integrated F&W program is a figure that has not increased in years, she said. There has been no allowance for inflation, Patton pointed out. We don't know what is going to happen with the Biological Opinion, and it could require major changes, she said. We think you should plan for the potential actions you might have to take, Patton said.

Jean Ryckman, Franklin County PUD, said BPA has been responsive to its customers in the PFR, and "we appreciate it." Rates are a huge issue for us – "they are the life and death" of our businesses, she said. Low power rates have been "the saving grace" in our region, Ryckman stated. A 27-mill rate target is achievable, and you should work toward that, she said. We think we have been undercounting conservation for years, Ryckman continued. A lot has been happening that is being paid for by others, and we need to recognize efforts that have been going on, she said. Ryckman also pointed out that irrigators are doing a lot with conservation of electricity and water.

We need to take steps to see that fish mitigation costs are cost-effective, she stated. We know we have a mitigation obligation, but we also have an obligation to spend wisely, Ryckman said. She asked BPA to consider the amortization period for projects funded under its F&W program versus projects built by the Corps and Reclamation. A longer amortization period for F&W projects would have an impact on rates, Ryckman said. She also asked BPA to reconsider its augmentation schedule for ConAug investments. The amortization schedule depends on the period remaining in the contract and doesn't relate to the life of the measure, Ryckman added.

Paul W. Locke, citizen, said there is not adequate generation being built in the region. As you add more residents, you need more power, and right now, we don't have power for industries, he said, pointing to business, such as steel and aluminum, that are leaving the region. Locke said he did not think money being poured into programs for fish is money well spent. As a ratepayer, I'd like to see rates go for more modern turbines that turn out more energy for the amount of water being used, he said. You need electricity to create jobs, Locke said. It's absolutely essential that we change course, he stated.

"Energy efficiency is a gift that keeps on giving," according to **Dave Kerlick, citizen and NWEC member**. Energy efficiency should be funded, and meeting targets should be accelerated, he stated.

Tom DeBoer, Puget Sound Energy, thanked BPA for the opportunity provided by the PFR. Your customers appreciate it, he said.

Robert Cowan, Fred Hutchinson, said the cancer research center is saving $1.5 million a year on its power bills as a result of energy conservation measures. There is "a perfect storm" brewing for conservation, he said: energy prices are high across the board; utilities have programs to encourage energy efficient buildings, and new technologies are emerging for energy efficiency. You can get a lot of leverage with the dollars you put out because we can join you and put out dollars too, Cowan said.

Energy conservation is a tough sell in the Northwest because our rates are low and we have a mild climate, he said. An energy project here with an eight-year payback would have a four-year payback somewhere else, according to Cowan. He offered tours of the Fred Hutchinson facilities, saying the buildings provide many examples of energy conservation and technology for energy efficiency. We have technology that is saving a lot of energy – we've done great things, some of which is not being counted in City Light's conservation achievements, Cowan indicated.

Mike Little, Seattle City Light, said he didn't know where Seattle would be with conservation without BPA's funding. He said Nucor Steel chose to stay in Seattle because of the help City Light could offer in upgrading their furnace. They are saving about 8 million KW a year now, according to Little. I agree with those who have pointed out the risk you face in meeting your conservation goals, Little said. Decrementing for conservation gains is an issue for some utilities, he said. "Incrementality" is a new term that has surfaced, and it refers to using BPA funds to pay for things a utility would already be doing – there will be reaction to that, Little predicted. I also think there is a lot of conservation being done that is not being counted, he summed up.

The meeting adjourned at 7 p.m.