Bonneville Power Administration
Power Function Review Management Level Discussion
May 16, 2005

Rates Hearing Room, BPA Headquarters, Portland, Oregon
Approximate Attendance: 50

Draft Closeout Letter and Wrap-up

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

I. Welcome

BPA Administrator Steve Wright welcomed the managers and thanked them for participating in the Power Function Review (PFR). The PFR has been a lengthy and valuable process, and it is part of a larger "culture change" at BPA that is focused on enhanced accountability and transparency, he indicated. The PFR builds on the Sounding Board effort – it's part of a continuous improvement process, Wright said. He noted that the PFR has benefited BPA internally. Preparing the meeting materials and presentations has increased focus internally on costs, and it has engaged the BPA staff to respond to questions raised by participants, Wright explained. Our cost partners – the Corps of Engineers, Bureau of Reclamation, and Energy Northwest (EN), have also been involved in the process, he said. This has all been quite valuable, Wright stated.

He called attention to a pie chart and table of BPA costs, pointing out that a huge part of the costs are associated with debt management. Wright also pointed out a comparison between expenses for the 2002-2006 rate period and the forecast for 2007-2009. In internal costs, we have kept costs stable without adding for inflation, a challenge I laid out to managers, he said. In other categories, there are increases, Wright acknowledged, noting that O&M for the Corps and Reclamation cover "the assets that create the value." The total on the table shows an overall expense decrease of 2.3 percent, he said.

At the end of this process we have decisions to make about costs for 2007-2009, Wright stated. I want to hear your comments before we bring this to a final conclusion, he said.

Paul Norman (BPA) asked for general comments before the overview of cost categories.

General Comments

Steve Eldrige (Umatilla Electric) started out with a comment on "the amount of process required to make decisions." It's not just BPA, "it's the Council, it's everyone," he clarified. It's too much for people to participate in, Eldrige said. I feel BPA made a tremendous effort to respond to the questions and concerns raised and to explain things, he said. If we look at the reasons for so much process, "I wonder if some of it is solely to keep an eye on each other and protect our interests," Eldrige commented. Someone should look at why we are so process oriented, he suggested.

As for the PFR conclusions, I'm happy we can reduce the budgets, Eldrige said. In preparation for the meeting, I looked over BPA's annual reports for the last several years, he said. Eldrige pointed out that there is no longer detail about who BPA sells power to and the number of employees. "I'm interested in those things," and I'd encourage BPA to return them to the annual report, he said. Eldrige also pointed out that in the last five years, BPA has been comparing its rates to the market. "I'd encourage you not to use that as the benchmark," he stated. Hydro costs have not changed that much – "it's what we have added on," Eldrige said. The market BPA is comparing itself to is largely thermal, and that ought not to be the standard, he said.

It looks like rates will end up around $30 a megawatt-hour (MWh), Eldrige said. We should do better than that, he wrapped up.

Ralph Cavanagh (NRDC) said he found the process valuable. There are key participants around the table, and we ought to have more opportunities to talk to each other, he said. Cavanagh said "extraordinary effort" was made with the BPA presentations for the PFR. If this adds value, it's worth my time, and I'll be back any time you convene a meeting, he stated.

We appreciate the time we have spent here, Steve Marshall (Snohomish PUD) said. We are in this together, and if you succeed, your customers succeed, he said. It looks like rates are going to go up rather than down, but this budgeting may be premature, Marshall said. It's a long time before the next rate period, and there is a lot of opportunity to look at cuts that could be made as a result of the KEMA study, he said. Marshall encouraged BPA to take the suggestions in a February 24 letter from PPC. Set a $27 per MW target inclusive of risk – have a goal, he urged. "I can't imagine the CEO of a large company saying he can't set an earnings target because of environmental laws" and because costs might go up, Marshal stated. When costs at our utility go up, we look to cut them back, not raise rates, he said.

Don't lock down your budget decisions now, Marshall advised. Every time you take money from the economy of the Northwest, the region loses jobs, he said. If BPA's rates remain as high as they are, one of our large industrial customers, Kimberly Clark, could leave, Marshall added. Set a target and work hard to achieve it– don't stop now, he said.

Where the rate number ends up depends on what the agency chooses with regard to risk, John Saven (NRU) stated. It's insufficient to take that topic into the rate case without giving policy makers in the region an opportunity to participate first, he indicated. I'd request we visit that question in a high-level discussion, Saven said.

Paul Davies (Central Lincoln PUD) said his utility is a presubscription customer and currently pays 21.5 mills. If that rate escalates at 3.5 percent per year for five years, the result would be a rate of 25.5 mills in 2006, or a 20 percent increase, he said. That seems reasonable, but if BPA goes with the cost level being proposed, it could mean between a 50 and 90 percent increase for Central Lincoln, Davies said. He pointed out that the PUD has been cutting costs, and staff numbers have fallen from 150 to 140 and will go to 130 by 2011.

Our residential and small commercial customers cannot absorb a 90 percent increase, Davies stated. Georgia-Pacific, our largest customer and the largest employer in the county, could see a 30 percent increase with what you are proposing, he said. We expect the Administrator to implement cost reductions and to give us a reasonable rate, Davies concluded.

Dwight Langer (Northern Wasco PUD) said he has participated in the PFR because it is an opportunity to forge solutions. The PFR process is intensive and the issues complex, he acknowledged. BPA has been very open and responsive in trying to balance the goals of customer groups, Langer said. The relationship between BPA and its customers is a partnership, and I think it is growing stronger, he added. Controlling costs is "a continual fight," and everyone in the room is trying to deliver on that, Langer said. I appreciate BPA's dedication to the process and to its customers, he wrapped up.

We have appreciated the transparency and have learned more than ever about BPA's cost structure, Nancy Hirsh (NWEC) said. We are trying to be responsive to rate pressure, but we don't want to lose sight of the long term in meeting the short-term pressures, she said. Specifically, I'm talking about conservation and renewables, which have long-term value, Hirsh said. We urge you to take a hard look at how to balance the investments, she said.

Cost Categories

Norman picked up with a description of BPA's cost categories. We have to nail down the costs for our initial rate proposal, but we have nine or 10 months beyond that to continue to work on costs, he said. "It's not pencils up on costs," Norman said. Today, we want to get a sense of your major points of view on our draft PFR conclusions, he said.

Starting with debt service, Norman went over issues raised during the PFR. There are two things outstanding in this category, he said: treatment of the Columbia River Fish Mitigation (CRFM) costs and pushing EN bond repayment beyond 2018.

Eldrige asked about the 3,000 MW of additional load BPA says it will be serving in the next rate period. Is that an increase in public power load or is it a result of publics selling non-federal resources and putting load back on BPA? he queried. Norman acknowledged that there is confusion about two separate contexts for 3,000 MW. Public utility load on BPA was 3,000 MW less in 1997-2001 than we forecasted for 2007-2009. Separately, there was a jump of 3,000 MW from 2001 to 2002 because of the decision to serve IOU and DSI load, and public utility load increases, he explained. Would you put that explanation in writing? Eldrige asked.

BPA's 5(b)9(c) policy did not allow us to sell our Centralia resource and replace it with federal power, Kevin Clark (Seattle) pointed out. With regard to conservation financing, I don't see the rationale for allowing only a five-year payback, he said. Why isn't conservation capitalized over the useful life of the measures? Clark asked.

Our original decision related to the fact that contracts went to 2011, Norman responded. The five years was a compromise, he said. But we are in the process of putting in place a long-term contract structure, Norman said. Until we sort out that structure, we do not feel comfortable with a duration that goes longer term, he said.

This is also an issue about our sustainable access to capital, Wright said. If you go to 15 years, you triple the amount of investment capitalized over time, and that has an impact on our access to capital, he said. And we are talking about large numbers, Wright added.

I would encourage you to have "a complete and frank discussion" with your customers, before you extend the EN debt beyond 2018, Joe Nadal (PNGC Power) stated. You need to discuss the propriety of that, he said. Do you have a time frame for that decision? Nadal asked. We are beginning to talk to the EN board, but we don't have a time frame, Val Lefler (BPA) responded.

Norman moved to the Columbia Generating Station (CGS) costs, noting there are two refueling outages in the three-year rate period, which is reflected in the costs and exaggerates the escalation in those costs from 2002-2006. EN has proposed a $22 million reduction compared to what we presented at the PFR opening workshop, he said. They are a being aggressive about cost management. We still have the outstanding issue of fuels costs, and we are working with EN to try to manage that, Norman reported.

EN did a good job of presenting its budget, Jean Ryckman (Franklin PUD) said. They achieved a 10 percent reduction from where they started, she added. They also took issue with mandates they have gotten from Washington, D.C., Ryckman pointed out. I think we could learn from that, she said, noting that sea lions and ocean fishing are such issues for the BPA customers. We shouldn't just accept the costs, we need to look at what is being imposed and see if it makes sense, Ryckman stated.

I would also commend EN, Eldrige said. "They took our message to heart," he said. It would be helpful if everyone presented uniform budgets, Eldrige added. CGS "is out of the money" in today's market, he commented. They might not be in business if it weren't for the guarantee that BPA buys the output, Eldrige indicated. "The pressure has to stay on them" – they have such a large impact on your costs, he said.

For "the rate hawks" at the table, CGS is the single largest source of upward pressure on costs, Cavanagh pointed out. They are a larger impact than the Corps or Reclamation, he said. The Corps and Reclamation made good presentations too, and there is a rapid payback on the investments they propose, Cavanagh indicated. He urged the group not just to look at costs, but also to consider the value that is gained. The Corps and Reclamation investments are an attempt to gain more revenue from the system, Cavanagh pointed out. They are talking about "a change in the maintenance philosophy," and that could lead to big gains, he stated.

With regard to the Corps and Reclamation costs, this group suggested benchmarking the federal hydro projects, Norman said. We have other projects on the river, the Mid-Columbias, to compare ourselves to, he noted. We've talked to Grant PUD, and I expect that benchmarking effort will be kicked off soon and will be done in time for final rate setting, Norman said. The Corps is doing its own internal look at costs through its 2012 Project, and that could also yield cuts in time for the final rate proposal, he said.

No one in the workshops suggested not making the rehabilitation investments in the Corps and Reclamation hydro projects, Clark pointed out. Our problem has to do with the O&M increase since the 1990s, he said. They haven't justified the additional $46 million annually that is being proposed, Clark said.

The amount of increase doesn't seem unreasonable, Eldrige said. I have a concern about whether the system is operating as a whole – it still seems like there is a project-by-project mentality, he said. There are economies of scale to be gained on things like routine maintenance, and I hope they are taking advantage of that, Eldrige stated. He also pointed out that the system is heavily engineered and needs engineering expertise. "We can't have a bookkeeper running a system that is so heavily engineered," Eldrige said.

With respect to BPA's business partners, there is not enough rigor in that process, and it needs "shoring up," Kris Mikkelsen (Inland) stated. Before the partners come in to make a presentation to us, they should have to go through a rigorous process to justify their costs, she said.

We do have a rigorous process, and that needs to be made more apparent, Norman replied.

One suggestion was to get customers more involved in the Joint Operating Committees so we better understand the costs, Randy Gregg (Benton) stated. I also encourage you to push the Corps and Reclamation to lower employee grades and examine their own internal processes, as BPA is doing, he said.

Paul Elias (McMinnville) encouraged the operating agencies to keep up with capital programs at the hydro projects. "It keeps expenses down," he said. "They are trying to move from a breakdown to a preventive maintenance approach," and that reduces costs overall, Elias commented. We should be seeing that effect in the O&M budgets, he said.

Langer pointed out that $300 million in CRFM studies is coming due. I get the impression that figure was a surprise, and you should work to prevent that kind of thing in the future, he said.

With regard to transmission costs, we've seen some improvement since the original PFR numbers, but there is not much more prospect for more reductions, Norman continued.

Clark questioned whether there is "a double count" in the transmission costs. He recommended that BPA budget the minimum, based on dry conditions, and address the issue as part of risk mitigation.

There was a wide range of views about the appropriate funding level for the fish and wildlife (F&W) integrated program, Norman said in moving to the next category. We settled on a $4 million increase from where we started, he said.

I keep seeing in your presentations that the reason rates are going up is because of the increased benefits BPA is providing, Ryckman said. She expressed concern about some of those "benefits" – I think when we provide benefits, BPA has a duty to fund only those projects that are the effect of BPA operations. I went to one of the regional PFR public meetings and was dismayed to see it held in a building where there were posters and bumper stickers displayed that talked about taking out dams, Ryckman commented. We should not be providing funding beyond BPA's responsibility – others should pay for that, she stated. I encourage you to continue to focus on programs on the ground and not to provide funding for "unfounded research projects," Ryckman said. And we need to set goals for F&W, she stated.

This process has been good until this last step, Ed Sheets (Yakama Nation) stated. The F&W managers worked with BPA to come up with a cost for implementing the subbasin plans, he said. BPA and the Council spent $15 million to develop the plans, "which give you the goals you are talking about," according to Sheets. The subbasin plans developed expectations about implementation, he said. In developing costs, the F&W managers looked at funding implementation of the plans over 10 years, Sheets said. I thought we were making good progress, but in this proposal "it looks like BPA has ignored F&W managers," he stated. There is no salmon fishing going on now, and that is hard on the tribal communities, Sheets said.

With BPA's funding proposal, it would take decades and decades to achieve results, he continued. The proposal doesn't factor in inflation, and it also relies on a shift away from research, monitoring, and evaluation (RME), while scientists are telling the region to do more RME, Sheets said. The tribal managers are frustrated, he stated. They want to work these issues out in the region, but where is the willingness to do that? Sheets asked. If they cannot work things out here, the tribes may take other actions, he said.

I am sympathetic to economic conditions on the reservations, Eldrige said, but he questioned whether it is BPA's responsibility to address them. The early settlers decided they needed to farm to survive "because nature does not always provide," he said. I think the harvest situation is tragic with spring chinook this year – we still set fishing levels before the escapement is known, and it's a poor process, Eldrige said. I'd encourage BPA to keep the budget pressure on F&W, he said. We do not have an agreement on where we want to go, and we don't know what the investment will achieve, Eldrige said. He also questioned how well the Council's F&W program is coordinated with the ESA.

While the dams have had an impact, so have the 10 million people who live here, the freeways they've built, as well as many other aspects of modern life, Eldrige said. BPA should not come up with all of the money for fish recovery, he said. What are the casinos, the states, and other sources contributing? Eldrige asked.

I echo those comments, Marshall stated. One way to enhance meeting our goals is to pay attention to what happens at the time the fish are trying to return to spawn, he said. We go to great lengths to try to prevent "accidental loss" at the dams, but just before the run comes back, we have sea lions eating salmon and ocean harvest going on, Marshall pointed out. We have sent comments to the Pacific Fisheries Management Council asking why they are setting a harvest level on endangered species just at a time when they are ready to spawn, he said. If BPA is going to try to recover fish with everything that is in the subbasin plans, then money has to be put into preventing harvest when the fish come back to spawn, Marshall stated.

This is the most expensive environmental recovery plan in the world, he said of the region's fish recovery effort. "Yet we have no plan to prevent intentional killing," Marshall stated. We can't continue business as usual, where everything we do is offset by other actions, he said.

We have been listening for years to the need for goals and objectives, and we now have them in the subbasin plans, Cavanagh said. If budgets are cut for F&W recovery, "blunt instruments will intervene," and it will eventually cost us all more money, he advised.

I'm surprised that utility managers are now acting as "marine scientists," Steve Weiss (NWEC) said. I think we can discount those opinions – "the numbers taken in harvest are trivial," he said. These are just "silly solutions" people try to come up with, Weiss said. Many, many people are paying the bills, he continued. And the populace in the region is supportive of paying that bill, according to Weiss. The bill is relatively small and should be put into perspective – "it's not that much," he said. The customers talk about "foregone revenues," but that is "a fictitious number," Weiss said. It assumes that the river belongs to electricity production, he stated.

The Yakama Nation will be in Washington, D.C. next week to work on the sea lions, Sheets reported. With regard to harvest, the tribes are very sensitive, he said. Over the years, the tribal harvest has averaged 7 percent, according to Sheets. How much lower should it be? he asked. If you cut harvest, more fish will come back, but you have to fix the habitat to get a good return for the additional fish, Sheets said. The Council decided the issue about BPA's responsibility, and "organizations around this table endorsed that outcome," he stated. The goal is to double runs to 5 million fish above Bonneville Dam by 2025, Sheets said. The average is now 2.5 million – we aren't there yet, he added.

If you include the replacement power costs, F&W recovery is 28 percent of Umatilla's power bill, Eldrige stated. We spread $7 million among 9,000 customers, he said. Not everyone pays for this – does BPA "get checks from Starbucks and from PGE"? Eldrige asked. We will do our part, that's our responsibility, he stated. But until we have a goal, we'll never come together, Eldrige said.

I want to encourage BPA to continue to improve the quality of the F&W program, Tom Karier (NPCC) stated. I'd like to see you approach the program with the same passion you put into transmission and power production, he said. I've been pushing for accountability and being systematic in the program – BPA is now doing a good job, but it has taken 20 years, and it is overdue, Karier stated. There is a lot to be done with the data system, and it will take a lot of effort to make sense of all of the information, he said. I'd urge you to continue on the path you started, realizing you may have to double your effort to get there, Karier said.

We heard that there could be $46 million in foregone revenues associated with the in-river transportation study that has been proposed, and that this cancels out the gain from the installation of removable spillway weirs (RSW), Saven said. We also heard that this is a measure out of the Updated Proposed Action, so "we can't touch it," he said. The customers have suggested not doing the study, cutting back the scale, or delaying it until the RSWs are in place, Saven stated. We asked our attorneys about the flexibility under the Biological Opinion to do that, and "I'd like to assert vigorously," there *is* flexibility with the design and when this study is done, he said. The $46 million is a lot of money – it's too much given other demands, Saven said. He urged BPA to talk to the other agencies about changing the transportation study plan.

There is a lot of difficulty with costs that are "a step removed" from BPA, such as the Corps, Reclamation, and F&W, Marilyn Showalter (PPC) stated. The players with the direct responsibility for those costs are not here, she said. Given that, you need to think carefully about placing transmission costs into another institution, specifically an RTO, Showalter advised. Doing so would create the same type of situation, and you need to think about that, she said. There is a very big difference between BPA's direct costs and costs that are another step away and out of your ability to control directly, Showalter pointed out,

Norman moved on to explain the "other cost" category, which includes $40 million to serve DSIs. With regard to efforts to reduce internal costs, we don't have the results yet for our process reviews and other recent cost management initiatives but had comments that we should included an estimate of that potential, he explained. We proposed an $8 million placeholder, Norman said.

I would compliment you on your transparency in this area, Gregg said. The downside to that is customers are more familiar now with the line items, he added. Gregg suggested BPA set inflation at 2 percent and back out $20 million more in costs associated with IT and general corporate overhead. Get back closer to your 2001 levels, he urged. With regard to the industry restructuring costs, I'm not convinced 40 percent should be allocated to power since this effort is largely aimed at transmission, Gregg stated.

PBL and TBL are doing a great job in cutting costs, but it is disappointing to see Corporate is not following that lead, Clark said. There are "phantom" IT costs included in the numbers and nothing to back up some of the other costs, he said. The Corporate costs continue to rise – there was a $14 million increase going in, and there is still a $6 million increase, Clark stated. There is a good example being set by the business lines that is not being followed by Corporate, he summed up.

I'm confused by the numbers you are using – I don't see it, Wright said. Yes, we need "to run those numbers to ground," Norman agreed.

Simultaneous with the PFR, we were defining the future structure of our conservation program, Norman continued. We adopted our share of the Council's goal in the Fifth Power Plan as our target, and we set "an aggressive per MW cost" for meeting that target, Norman acknowledged. The reduction we have made since the PFR opening numbers reflects the conservation we think will occur without a BPA investment, he said.

"This is an issue closest to the heart of the Council's mission," Karier commented. We commend you for adopting the Council goal as your target, but we are confused about your proposal for treating IOU conservation, he said: you are not responsible for meeting an IOU-related target, but you have conservation and renewables discount funds going to them. We also have a concern about whether you can achieve the target with the budget you propose, Karier went on. The consequence could be that "you play catch up" and pick up the additional costs in the next rate case, he said. If you don't catch up, alternative generation will be needed, Karier pointed out. What happens if you fall short? What assurance do we have you will meet the target? he asked.

Cavanagh said he had not heard anyone tell the Council at its Portland hearing that the conservation target was too high. He noted that the conservation targets in California are now higher than those in the Northwest. I am concerned about the inadequacy of funding and suggest we target the money toward irrigation efficiency, where we could save both electricity and water, Cavanagh said. To see BPA cut the conservation budget from where it was at the beginning of this process "is troubling both in substance and symbolism," he said.

Weiss said he wanted to reiterate that the display for conservation costs should indicate that there are offsetting revenues to be gained. He took issue with BPA's analysis of the difference between the market and the potential revenue from the conservation resource. The benefits are between $20 million and $30 million over the three years – conservation will reduce rates, and you should count it as an offset, he added. If not, you should hold the revenue in a reserve fund to backstop the conservation acquisition target, Weiss said.

I would echo the Council's concern about the budget for conservation, Sheets stated. Conservation will keep costs lower and benefit the environment, he said. I'm also interested in the suggestion about targeting irrigation efficiency – that could provide water for fish and for increased generation, Sheets commented.

All customers pay for conservation, and they are being lumped together despite the need for a more tailored approach, Rick Lovely (Grays Harbor) said. We have never stopped doing conservation and we own renewables – we are trying to avoid buying higher cost resources, he stated. But the way the program is being laid out, we are being penalized, Lovely said. We don't like the ConAug program, and it is a challenge to realize that if we don't participate, we still pay without getting any benefit, he said. I would encourage BPA "to design a program that works for all customers," Lovely stated. We used to be a participant in Centralia, and we were decremented 52 MW for that and experienced "a huge penalty" for replacing that power, he said. We're working within the community on conservation and renewables – but the way the program is structured is not fair to all customers, Lovely stated.

I would echo Tom Karier's comments, Hirsh stated. We commend BPA for adopting the Council's target, but because of the way you are treating the IOUs, 52 MW is not your true share, she said. We would like to see you revisit that issue, Hirsh stated. I would also like to reiterate the concern about the funding level and the lost opportunity that will occur, she said. It will be more expensive in the next rate period "to fix" things, Hirsh said. If the funding level is too low, as many think it is, we need to know how you will address that, she said.

Consider not making the $5 million cut in conservation and hold that amount in reserve as a contingency to either put toward the irrigation effort or use as a backup if the you don't meet the target, Clark suggested.

We have been proactive about conservation, and it has become more expensive for us to gain conservation savings, Ryckman said. I would ask you to reconsider the list of cost-effective conservation measures, she said. Don't discount additional measures that may be feasible, Ryckman recommended.

I'd support Jean and Rick's comments, Nadal stated. "One size does not fit all with conservation," he said. Our members have met their five-year target for conservation already, Nadal pointed out. We need flexibility for customers in different areas so "we can capture the potential out there" – otherwise we will miss some, he said.

We were concerned about locking into a cost-effectiveness list, Karier responded. We think the Regional Technical Forum can be a source of information on that, he said.

Generally, the conservation BPA should fund is what would show up in a utility's Integrated Resource Plan, Eldrige commented. You need flexibility in the program that falls outside "a static list," he added. For example, there are opportunities with food processors in our area that take time to develop, Eldrige said. We are willing to work with the irrigators on efficiency, but the irrigators should get credit for the water and energy saved this time around, he stated.

Snohomish has a big conservation program, and we plan to continue, Marshall stated. We don't want to be punished through the design of the program – we need to be able to meet local needs and have local control so the program addresses needs in our community, he indicated.

Norman explained that the Calpine geothermal plant expenses were removed from the budget in the first two years of the next rate period, which means an $11 million per year reduction. That has been partially offset by a budget for renewables facilitation activities, he said.

Cavanagh said the change in the renewables budget represents a substantial decrease from the original PFR numbers. He said the region has the potential to become a national and world leader in the development of wind resources and suggested the funds be dedicated to such an effort. It is worth the expense to get this going, and it is "our strong recommendation," that you put the funds back, Cavanagh said. The amount is small, but the benefit is large, he stated.

If you are going to develop wind, having a flexible river to integrate the resources is a big benefit, Kevin O'Meara (PPC) pointed out. To maintain that potential, I'd advise caution in taking the flexibility from the river system by imposing fish operations, he said.

This is not just about wind, Hirsh said. The biomass potential in this region is unprecedented, she said. There are other small resources BPA could help customers with – you should help facilitate these resources, Hirsh urged.

Developing small resources doesn't always work because of their location and the need for transmission capacity, Eldrige pointed out. He suggested it would be more helpful to help local utilities absorb the energy from small projects into their systems, rather than to send the energy out onto the grid. You could facilitate that, Eldrige said.

We've teed up the issue of risk in the PFR and looked at options, Norman said. The issue will continue into the rate case, and it may be the biggest factor we address there, he said. We have heard your point about reconvening a management-level group on risk before the rate proposal, Norman added.

The numbers in the draft closeout get us to 27.5 mills, and we're looking at 31 mills or more before you add cost adjustment recovery mechanisms, Michael Early (CFAC/Alcoa) said. We are probably not looking at a rate decrease, and we are probably looking at the same rate or something higher, he said. The issue I'm concerned about with the customers is how we want to bear the risk, Early said. Risk should be a partnership – I'd urge you to put conditional budgeting back on the table for discussion, he stated.

I don't want to see BPA ties its hands too much with the risk mechanisms, Weiss stated. Things come up – we have big uncertainties with fish, and you have to be able to cover yourself, he said. The Administrator needs discretion, Weiss said.

There may be opportunities now that will be too late when the rate case starts, Marshall said. I'd urge you to look at borrowing money with a line of credit or some other mechanism to meet the uncertainties related to hydro operations, he said. But it will require planning and work, and I'd encourage you to start that thinking process now, Marshall advised.

With regard to the Treasury Payment Probability, there are many things predicated on a 10-year-old study, Saven said. I'd encourage you to be more creative about approaching how your financial plan is put together, he said.

Wrap-Up

It is extremely helpful to hear your comments "face to face," Wright said. I don't want to make a conclusion now about the PFR results, but this has been valuable, he said. The "biggest take away" for me is the progress that is being made with your understanding of BPA's financial issues, Wright said. There has been real progress, he stated.

You are asking, and I have asked myself, why rates can't go down to $25.50 per MWh, Wright continued. There are a lot of benefits that we are now providing – we're serving more load, increasing F&W and conservation funding, and increasing IOU benefits, he said. People are receiving a lot of benefits that flow through to rates, Wright said.

"The issue I struggle with is the near-term versus the long-term tradeoffs," Wright said. We've been cutting budgets, and there is "not a lot of fat left," but there are short and long-term tradeoffs, he explained. These are hard decisions and they are value judgments, Wright added.

With regard to a rate target, people have said we lack a real target, he went on. We could solve the issue of a target, but it might be in a way that would not be acceptable to our public customers, Wright said.

As for risk, we are still recovering from the energy crisis, the loss of the fish cost contingency fund, and six years of drought that have left us with low reserves, he said. We also pushed costs off into the future, Wright added. "The problem gets a lot better if we have a good water year next year," but we won't know that before this process is over, he said. Risk will be a big discussion, and I appreciate John's suggestion about having more policy dialogue on this issue – I want to actively pursue that, Wright stated. "This is time well spent," he concluded.

The meeting adjourned at 12 p.m.