

Meeting Notes
Power Net Revenue Improvement Sounding Board
February 25, 2004

Attendees: Kris Mikkelsen (Inland Power and Light), Lyn Williams (PGE), Jason Eisdorfer (Citizens' Utility Board of Oregon), Howard Schwartz (State of Washington), Ralph Goode (Mission Valley Power), Ralph Cavanagh (NRDC), Jerry Leone (PPC), Judi Danielson (NPCC), Jim Kempton (NPCC), Charles Pace (Upper Columbia United Tribes), Tom Karier (NPCC), John Saven (NRU), Steve Crow (NPCC), Doug Marker (NPCC), Ed Bartlett (NPCC), Melinda Eden (NPCC), Larry Cassidy (NPCC), Karl Weist (NPCC), Steve Weiss (Northwest Energy Coalition), Pat Ford (Save Our Wild Salmon), Steve Eldrige (Umatilla Electric), Ray Entz (Kalispel Tribe), Paul Lumley (CRITFC), Rod Sando (CBFWA), Tana Klum (CBFWA), Dave Statler (Nez Perce)

BPA Attendees: Paul Norman, Michelle Manary, Greg Delwiche, Roger Schiewe, Therese Lamb, Scott Hampton

Paul Norman began by reminding the group that the purpose of the Sounding Board is narrow—finding \$100 million of cost savings or revenue enhancements in FY04-05 that could avoid an SN CRAC in FY05. Paul provided a brief update on the search, indicating that we are measuring against August rate case numbers.

Paul continued that BPA has had a substantial reduction in net interest expenses. At the last meeting we consulted with the Board about whether this should count toward the \$100 million, because it was included as one of the 10 eligible categories. The conclusion was yes it should count, but put an asterisk by it, indicating since this is much more than we expected, we should set our sights higher than \$100 million. We will have a more in-depth discussion next meeting on net interest expense. With the reduction in net interest, we are standing at about \$70 million in savings; however, BPA is not thinking we are almost there.

At the next meeting we will discuss the last of the categories. On March 16 the Sounding Board will meet with Steve Wright and take stock of where the Sounding Board sees reductions and focus on the March to June timeframe. We need to reach conclusions by June to affect the next SN CRAC.

Topics for today are Fish and Wildlife operating and direct program costs and the method for estimating the costs associated with river operations for fish mitigation purposes. Paul Norman needed to correct something he said at the last meeting. He stated that due to Calpine not going on line in FY04 there would be an \$8-9 million savings toward the SN CRAC. The correction is that the savings will flow through the LB CRAC—which still provides a rate benefit—but just not in the SN CRAC.

Tom Karier asked if there was going to be a discussion of the software expenditures that was in the Oregonian article. Paul Norman indicated that the costs identified in the article are in the transmission rates and not in power rates and thus did not affect the \$100 million target. Jerry Leone asked about the costs of the Business Enterprise System (BES). Paul indicated that is

BPA's payroll and financial tracking system. The costs associated with it are in the internal category that we can look at with the Sounding Board.

Pat Ford asked for clarification of the purpose of this meeting. He asked if the Sounding Board was going to decide on summer spill issues. Paul Norman indicated that no, summer spill would be discussed and decided in different forums, not in the Sounding Board. The agenda item for today stems from a request by the Sounding Board to understand how operational costs are estimated and how they affect rates.

Steve Eldrige offered the clarification that the amount of summer spill will affect the size of the SN CRAC – and Paul Norman agreed.

John Saven indicated that possible revenue enhancements from reduced summer spill operations are a potential significant component of the \$100 million target. The Sounding Board can't decide it, but it impacts whether or not we will achieve that target. Paul Norman indicated that was correct. We are looking at spill in the revenue enhancement category.

At this point, Roger Schiewe, Hydraulic Engineer for PBL, began the presentation on operations costs by stating that the objective of the presentation is to describe the principles, tools, and methods BPA uses for estimating the cost of hydro system operations for fish. There are two ways that we look at fish costs—retrospective and prospective.

Steve Weiss asked if the Sounding Board would be looking at the costs of municipal withdrawals, irrigation use, and industrial withdrawals of water from the rivers. Looking at conservation of water use could be a large savings. Is this in the purview of the Sounding Board? Not talking about cutting irrigation off, but wanting to look at possible methods that could be a win-win. Steve Eldrige agreed that it would be appropriate to take a global look at what affects the river, but that such an investigation is beyond the scope of the Sounding Board.

John Saven suggested that the group could discuss this more global look at river usage with the Administrator on March 16. Ralph Cavanagh indicated that at a previous Sounding Board meeting he had requested more information about irrigation withdrawal and is still interested in seeing the data. Charles Pace indicated that he thought the Sounding Board should also address market conditions and the efficiency of the hydro system. Steve Eldrige stated that it wasn't just BPA that was involved in river operation decisions. Paul Norman indicated that river usage would be placed on the March 16th agenda [Note: The March 16th agenda includes discussion of Sounding Board priorities from March to June. This is where this topic will arise].

Roger Schiewe indicated that there had been river usage studies in the past. The first one was in 1996 requested by Joyce Cohen, Oregon Council member, which involved BPA, the Corps and Bureau and looked at navigation, irrigation, recreation, power production, and flood control. There was also one done in 2001. And currently the Council staff is working with BPA on looking at irrigation withdrawals on the Columbia River. It is not a simple task. Very preliminary results are showing that irrigation roughly impacts about half of what fish operations do.

Roger Schiewe then discussed the material on page 3 regarding the HYDSIM model. Steve Eldrige asked if the model had been tested against actual flows. Roger answered that yes and for the whole system we were within 1 or 2 percent. However, on a project-by-project basis we were farther off. We shared this information with the Corps and Bureau and they changed their project output data. We now have much better fit between actual output and model predictions.

Charles Pace asked which of the projects had disparate data. Roger indicated they were McNary, Chief Joseph, and Grand Coulee. Charles Pace asked if the discrepancy at Grand Coulee was influenced by secondary sales. Roger indicated that operating for the transmission system was the major factor. Both light load hour (LLH) and heavy load hour (HLH) was adjusted downward from the plant output. This changed plant characteristics that affected both with and without fish measures studies. Roger then continued with page 3.

Roger then went on to state that the next step in the retrospective process is to compare generation, both with and without fish operations, against loads. They use the firm energy load carrying capability of the system as the constant load that needs to be met in each case. Results are monthly average deficits and surpluses.

Steve Weiss thought that using the without fish operations model would be disconnected from rates due to the fact that there is more water in the system in different months. Roger indicated that we have made a simplification because we need a constant load for both studies; therefore, we use the firm energy load carrying capability to show that it is not related to marketing actions. By doing this we can quantify the amount of energy that could be produced by the system under worst water conditions that is also a regionally-agreed to load that we have the right to generate to meet.

Roger indicated that step three in the process is to apply the actual Dow Jones Mid-Columbia month-average spot market energy prices to the surplus and deficits. Steve Eldrige wondered if by applying the spot market prices you are not being realistic because BPA is not in the market that much—is that a fair assumption to make? Paul Norman indicated that BPA and its customers with generation are in the market selling or buying hour-to-hour because loads are not completely predictable – we often have a little extra or not quite enough. Steve Weiss also stated that spill isn't symmetrical.

John Saven asked for clarification on whether the intent is to criticize and comment on the methodology, or to attempt to understand it. Paul Norman indicated that we would like to explain how we do the calculations. We may need to have a separate session to have a more technical discussion.

Roger Schiewe went on to page 5. There was a question about differences between the with and without fish measures because there are likely months where there are not any differences. Roger indicated that September is the only month we are not likely to have fish operations on the river. Throughout the year it is a difference in reservoir operations that determines the amount of generation. Steve Weiss asked if BPA is forecasting the prices with and without operations, which can represent differences of up to 2000 MW in a month. Such magnitudes can have a significant impact on market prices, he said. The price is going to change rapidly—seems like

you need to model that change. Roger replied that this analysis doesn't have to do with market decisions. Steve Eldrige indicated that if you have a huge dump of water on the market, that is going to affect prices.

Greg Delwiche expressed concern of the time spent thus far relative to the time available on the agenda and asked if folks could write down their comments/questions and at the end of the meeting we will see if we need to have an additional session.

Roger Schiewe then went through pages 6, 7 and 8 that show different storage and generation amounts and how that results in a cost estimate. Page 10 shows the prospective look, which is used to model the effects of varying water conditions on the cost of fish operations. Unlike the retrospective look, where the actual generation of the system is known, the prospective estimate needs to account for the wide variability in water available to the FCRPS. Spill criteria used in the HYDSIM models the most recent information in the BiOp for juvenile bypass. This is used for both the retrospective and prospective looks.

Steve Weiss asked if the same market prices were used for the prospective calculations as the retrospective ones. Roger answer that no – the full range of Aurora prices were used in the prospective estimates. Thus market prices would reflect the amount of water in each year.

Page 13 shows the savings from reduced summer spill is expected to be \$77 million (50-year average) but must be netted against additional costs of any offset actions. There was a statement that there is a lot of controversy around offset actions. There was a question about whether BPA should be in the fish business due to past practices on fish mitigation programs.

Greg Delwiche closed out the presentation by thanking everyone for the questions and insights. Roger Schiewe indicated that he is available by phone if the Sounding Board has further questions. His number is 503-230-5335.

Therese Lamb, Vice President, Environment, Fish and Wildlife, went through her presentation on the Fish and Wildlife direct program expenses. BPA's Fish and Wildlife program "budgeting rules" for expenses developed with the Council calls for managing the program to an annual average of \$139 million for FYs 2003-2006. Therese then went through pages 8 and 9 on the various components of BPA's direct program costs.

Steve Eldrige indicated that we could look at all of the components of the program and determine that we could do a better job. However, what if we had a private contractor do these things. The Council and BPA could set the budget, the Tribes, States, and Federal entities develop the plan, and the contractor runs the program within the budget. This could be less expensive and more efficient. Someone responded that they couldn't see an independent contractor running the whole program. There are various habitats and species that need to be protected. The people on the ground look at what really needs to be done. Steve Eldrige stated since there was a limited amount of money, and that an alternative approach using a contractor with a fixed budget and a clear statement of work might lead to less duplication and/or inefficiency. The current approach is bound to be inefficient with so many entities involved with implementing the programs and

potentially working at cross-purposes to one another. In this way limited funds could be stretched further. We all have the same goal and good will to protect the Northwest ecosystem.

Therese Lamb pointed out on page 11 that the primary drivers of the program costs are the legal mandates to meet both Power Act requirements and Endangered Species Act requirements. Other issues and areas of concern include that BPA changed from managing the F&W program budget based on obligations to one based on annual accruals, resulting in the need to absorb bills for work contracted during the MOA period whose payment didn't come due until the current rate period that added costs of about \$40 million. John Saven asked about why the change was made. Therese Lamb indicated that the Memorandum of Understanding defined how the program was to be managed. Working with Council staff we defined how to manage an expense budget over a multi-year program.

John Saven asked how much money needs to be absorbed in the current rate period. Doug Marker indicated that it is around \$40 million of bills that lagged from being submitted and are being booked in the current rate period. These costs are for some of the NOAA Fisheries' program combined with BPA off-site mitigation. The Wildlife program is lagging over the remaining 3 –years of the rate period. This is going to put additional pressure on our ability to manage within the budget.

Ray Entz asked for a clarification if this is a burden that was paid for and is now being placed on the current rate period? Therese Lamb indicated that the obligations were made during the prior rate period, but no cash outlays were made since bills were not submitted. We changed the budget approach to be on a fiscal year spending basis. This caused us to absorb these costs into the \$139 million budget.

Ed Bartlett stated that the Council's goal is to get as much benefit for the dollars spent. Pat Ford stated that the money being spent in the Northwest for salmon recovery is not enough. The level of funding provided in the region and the amount we get from Congress won't increase much, but supporters will continue to try to get additional funds. The average of \$139 million for FY 03-06 is not enough and how that money is being spent is a concern. He shared concerns that the program is a mess and worries there are conflicts of interest. The goals aren't set high enough—salmon abundance isn't even on the list.

Therese Lamb indicated that last year was a tough year—there were several late invoicing issues. This is being aggressively worked on to improve contract management and invoicing. Paul Lumley stated that if the Tribes don't know what the budget is, how can they manage to it. Tribes and states should not have to help BPA with cash flow. Would like the budget to reflect the obligations made for work to be done — if people perform the work they expect to get paid. Any project that has gone through the scientific analysis should be approved. Summer spill savings should be not be used to bring down rates, but should be spent on the next cost-effective project on the list.

Steve Eldridge indicated that everyone who has a stake in this should bring some of their own money to the table. Salmon recovery is not just a money issue. Other sources of funding should be sought along with BPA funding.

Melinda Eden said that work for fish that needs doing should not fail because of unrelated issues about contracting, management, and budget.

Judi Danielson stated that the Council is constantly in a balancing act and is aware of the ratepayer impact of the costs of salmon recovery. There are increased vulnerabilities by remands and BiOp implementation that we are trying to mitigate. The Council is pursuing cost-share partners for BPA—this is not BPA's total responsibility. There is more money being spent at the local and Federal level than the \$139 million. The Council has greater confidence that contracting and invoicing issues are being addressed under Therese Lamb's management. The Council gets frustrated if you only talk about money. The programs need more performance standards.

Kris Mikkelsen indicated that she would like to see when we are choosing projects we look at the most cost-effective and most efficient projects. If spill offsets can accomplish the same thing at much less cost, then that is the way to go.

Paul Lumley indicated that there is disagreement about the effectiveness of offsets and handed out a resolution from the Tribes.

Dave Statler says Nez Perce does leverage BPA dollars. BPA needs to be just as consistently and reliably focused on fish as on power supply reliability.

Larry Cassidy said he feels that Council project selection process is quite tough.

Pat Ford stated that the vision on page 7 indicates that BPA is focused on the power system. However, consistent funding for fish mitigation and recovery should be at the heart of the power system. Larry Cassidy indicated that neither the Tribes, Council, States nor BPA are happy with the way the program currently works. However, the Governors have given very clear direction about considering the impacts on ratepayers as well as fish recovery.

Judi Danielson stated that, since spill has come up, there will be further discussion at the Council meeting next month. Council has supported multi-year spill evaluation. We have spent over a year on the main-stem amendment and the Governors have backed that up. The current summer spill regime is no longer supported by science.

Jason Eisdorfer stated that he is not a fish expert, but is a ratepayer advocate. He is all for the most cost-effective projects. However, energy is a consumptive process and has a cost that needs to be acknowledged at the outset. There seem to be some problems that need to be addressed, but everything should be on the table. Last week we looked at CGS and didn't find much. We should also look at water withdrawals. He also indicated that he didn't think the Sounding Board could effectively make a decision on spill, but should be considered as part of internal costs and look at the larger policy issues. Ralph Cavanagh agreed with Jason.

Ed Bartlett suggested that spill savings and savings from changes in Montana hydro ops per the main-stem amendments be used to pay for spill offsets and to make up the cash lag from the prior years.

Paul Lumley said he did not favor that approach.

Steve Eldrige reminded the Board that BPA's obligations are the customers' obligations. BPA doesn't have any money that the customers don't give them.

John Saven asked if BPA and the Council are in agreement on the amount of direct program costs lagging-in from the prior rate period that needs to be absorbed in the current rate period. Therese Lamb indicated that there is general agreement that what is left to be absorbed is in the \$10-\$15 million range.

Jim Kempton indicated that the Council's main stem amendment deals with making spill adjustments to get additional science. Some of the funds from spill adjustments need to cover the costs of additional research, then any identified off-sets should be funded, and the rest distributed to ratepayers.

Pat Ford asked for clarification if the Sounding Board was going to make Spill decisions. Paul Norman indicated that the Board doesn't have decision-making authority on spill. However, spill is one of the categories where there may be revenue enhancements toward the \$100 million goal. Greg Delwiche said that he has had several explanatory discussions with different stakeholders in various forums. He has picked up creative ideas and will take them into discussions he has with those who are making the decisions on spill.

Paul Norman closed the meeting by noting that the Sounding Board had not racked-up any contributions to the \$100 million goal in this discussion, thought the concept of combining spill reduction, offset funding, funding for associated research, and make-up payments for the cash lag problem had surfaced. He asked if there was any interest in having additional time spent on. He asked the Board members to review the meeting notes and then let him know if there needs to be further more technical discussion of fish expenses. Our next meeting, currently scheduled for March 3rd may be rescheduled [Note: It was move to an extended March 16 meeting]. The meeting following on March 16th, Steve Wright will be joining us to check in on progress to date and to consult with the Sounding Board on priority areas of focus between March and June.