Meeting Notes
Power Net Revenue Improvement Sounding Board
March 16, 2004

Ralph Cavanagh (NRDC), Rachel Shimshak (Renewable Northwest Project), Jason Eisdorfer (Citizens' Utility Board of Oregon), Nancy Hirsh (NW Energy Coalition), Howard Schwartz (State of Washington), Ralph Goode (Mission Valley Power), Doug Marker (NPCC), Barry Espenson (Columbia Basin Bulletin), Karl Weist (NPCC), Kris Mikkelsen (Inland Power and Light), Lyn Williams (PGE), Steve Eldrige (Umatilla Electric), Pat Reiten (PNGC Power), Mary Verner (Upper Columbia United Tribes), John Saven (NRU).

BPA Attendees: Paul Norman, Greg Delwiche, Lynn Aspaas, Sarah Bermejo, Steve Oliver, David Steele, Steve Wright

Paul Norman said that today's meeting is to go over the last few categories of cost reductions and revenue enhancements that compose the original list that can contribute to the $100 million target and for the group to meet with Administrator Steve Wright to discuss how the process has been going, what could go better, and where the group wants to go next.

Potential Revenue Enhancements

Greg Delwiche covered hydro system revenue enhancements. Greg noted that decisions on summer spill are happening outside of the Sounding Board. He said that BPA will provide a proposal on spill in late March that will include recommendations for offset measures. Then, after an approximately 2-week comment period, there will be a decision from the regional executives on April 16th. He further stated that he thought the changes could be accomplished within the concept of adaptive management that is part of the 2000 Biological Opinion (BiOp). He explained that the plan is to develop an offset package that will cover the estimated biological impacts of reductions in summer spill.

Ralph Cavanagh reminded the group that this item is presented for information only because it is outside the scope of the Sounding Board.

The second potential source of hydro system revenue enhancements could come from the ability to NOT operate turbines within 1 percent of peak efficiency. As background, Greg noted that this requirement comes from the BiOp and is based on the assumption that juvenile fish survival is best when the turbines operate within 1 percent of peak efficiency. Since then, however, the research has been equivocal at best. Investigations at McNary and Bonneville dams found that the primary influence on salmon survival was the location of entry to the turbines–from the top, middle, or bottom. Peak survival was not necessarily correlated with the turbines operating within 1 percent of peak efficiency, and there were indications that operating further from peak efficiency, which allows more electricity generation, was not a negative influence on juvenile survival. NOAA Fisheries is now comfortable with the idea of operating outside of the 1 percent limit in spring and early summer, which means that water that is now spilled as a result of the 1 percent limit could instead be used to generate electricity; especially at McNary where there can be large amounts of inadvertent spill. (Note: This is a separate issue from biological opinion-required spill for fish passage, operation of turbines outside the 1 percent limit would not, in itself, result in reductions of the BiOp spill program.

Greg estimated that the potential gain from changing this operating requirement could be $7 to $10 million. If we were allowed to relax this requirement throughout the spring and summer, the benefit could rise to $15 million.

Greg then moved on to the third potential revenue source from the hydro system–additional operational flexibility. He noted that one of the greatest values of a hydro system is its flexibility. The original BiOp presented in 1995 has some constraints in it that merit reconsideration in terms of how they are implemented. For example, Dworshak has been operated at minimum flow throughout the fall and winter to maximize the likelihood that the reservoir is at upper rule curve going into the spring runoff period, for spring flow augmentation. The result is that often we end up spilling a large amounts of water in late February and March while note adding to spring flows; there is an energy loss associated with this spill, and at times, gas levels exceed state standards. There are now better forecasting models and statistics that would allow Dworshak to operate more efficiently while still meeting the refill requirements of the BiOp. Another example, he went on, is at John Day which is very restricted by the BiOp compared to the statutory requirements for operation. He noted that some believe that we could operate John Day more flexibly in the winter to produce more heavy load hour energy (HLH) without causing negative environmental impacts. Nothing is certain yet and BPA is working with the Corps on this potential change.

Finally, non-treaty storage is another potential area of revenue enhancement. The old agreement regarding access to non-treaty storage has been extended through the summer of 2004. In the meantime, we are negotiating a new long-term agreement regarding how this storage is used. He expects no impacts from any changes this year.

Ralph Cavanaugh asked about the possibility that any loss in water could be made up with increased market prices?

Steve Oliver responded that he wasn't sure what the base case assumptions are in the August forecasts for the SN CRAC.

Greg added that we model the effect of non-treaty storage at the border, so the marketing results are not directly quantified.

Ralph Cavanaugh asked how many aMW are included? Greg said that our share of non-treaty storage is about 2.2 million acre-feet (MAF) – about the size of Lake Shasta – which translates into about 4,000 MW-months. But there are lots of constraints on when we get access to this water.

Ralph interjected that the total foregone revenues from irrigation withdrawals and the sale of electricity to pump irrigation water is about $200 million. He encouraged creative minds to find a way to better manage these different uses of water to find win-win-win opportunities all around.

Lyn Williams asked what we could ask for from Canada during non-treaty storage negotiations.

Greg answered that both Canada and the U.S. could benefit if energy transactions between the U.S. and Canada were in HLH instead of flat blocks because that would allow each entity to better leverage the value of their respective resource bases. Greg also added that changes that reduce or eliminate the transmission and wheeling costs each entity incurs in order to have access to the generation from their part of non-treaty storage would be helpful. He commented that he was hopeful that the negotiations would result in opportunities to use this resource better that eventually would mean additional revenues.

Rachel Shimshak asked about the possibility of exchanges between the two entities. Steve Oliver responded that physical exchanges of energy are less popular than they were in the 80's and make less business sense. Deregulation of the industry has resulted in electricity being much more of a commodity than it was so that physical exchanges don't make economic sense anymore due to the wheeling costs, uplift charges from the CA ISO, congestion charges, etc.

Ralph Cavanagh wondered if this change represented rational economic behavior or some weirdness caused by excessive overhead charges from the CA ISO.

Paul closed this section on potential revenue enhancements by asking Greg what the total potential is from this set of possibilities. Greg responded that it's about $5 million from the possibility of operating McNary outside of the 1 percent requirement, but that it's not a done-deal yet. He expects a decision by mid-April–so the group should stay tuned.

The next presentation was from Steve Oliver regarding potential revenue enhancements in surplus marketing–mostly focused on capacity. Steve first noted that the projections of surplus revenues included in the SN CRAC rate case are already aggressive targets. FY 03's amount was $534 million. This amount is supported by the fundamentals of gas prices, etc., but nonetheless is the highest amount ever, even higher than the year when there was 150 MAF of runoff. This year's target is even higher--$560 million. He described the activities of the trading floor as focused on daily trading within risk limits. In addition, there are efforts to put surplus energy into high value market and use the flexibility of the system to build value–even though the models already shift energy into HLH and high value months whenever they can. In addition, traders look for ways to use the market in order to avoid paying transmission when it's economic to do so.

Pat Reiten asked whether the agency engages in speculative market activity or merely trades around its assets, and if so, whether there are risk management policies and procedures are in place to ensure that policy is followed.

Steve answered that all transactions are based on the generation coming from our system and our need to meet load. We do not buy power from one place and try to earn a margin by selling it elsewhere. In addition, we follow policies that limit our risk. The risk profile of the trading book is produced weekly. Credit limits are established for every counter party – and every counter party has to be approved. There is a Transaction Risk Management Committee that watches over the risk profile. Buy/sell arrangements are strictly prohibited except when they are to avoid transmission costs. And there is separation of functions.

Jason Eisdorfer asked if BPA's risk policies are confidential or public information. Steve Oliver said that he didn't think they were, and offered to send him a summary that is in layperson's language.

So–the ways that surplus marketing could potentially enhance revenues are from Reserve Services Marketing–which is the next presentation. And then we're looking at marketing capacity, especially as the sale to PacifiCorp expires. BPA is currently in discussions with other NW parties that could result in an additional $5 million, but it's too soon to know for sure. Steve said that he hopes to know by June. In addition, they are looking at different kinds of capacity products.

Howard Schwartz asked who the likely customers would be. Steve Oliver answered that just about anyone could use a capacity product. California has an RFP out, but it's unlikely we'll sell to them because they want too many flexibilities.

Steve continued and mentioned that wind integration services is a new product that has some potential for increasing revenue slightly in FY 04/05. The product is priced conservatively, but we're still learning how it will work.

Ralph Cavanagh said that he believes that it will be the premier integration service for the West coast.

Steve Oliver said that it would be a good match if wind is built in the PNW. But there are significant problems in terms of additional costs that would be incurred in order to deliver the wind to California loads. BPA nonetheless is talking with some northern California publics about the wind integration service.

Ralph asked if the transmission charges are from the ISO and noted that some buyers aren't part of the ISO. Steve responded that Ralph was correct–but to move the wind energy we still need Intertie space and transmission.

Ralph asked if we were over-charged for the use of the Intertie. Steve responded that he thought transmission costs were generally allocated fairly. But offered that there could be some additional creativity in how transmission is used to move wind energy.

Rachel Shimshak noted that she agrees, and that it's not just California that needs to think creatively. She wants Northwest utilities to step forward and not send the value of wind to California.

Steve Oliver moved on to Green Tags as another potential source of increased revenues. He said that his group is working to enhance this market in the Northwest, and that there might be an additional $1 million this year. He hopes to add more as renewable portfolio standards start to be put in place. He commented that he does not see much potential here in that Green Tags are getting more competitive and prices are dropping.

Finally, Steve moved on to opportunities in the California Power Market. He said that BPA staff speaks with potential California customers constantly. And that BPA does conduct a fair amount of business with California, notably in short-term sales. There are no long-term surplus or deficit on the horizon right now; so most customers are in the short-term market only as they work to match resources to loads. But, we have good relationships with these entities. In addition, we only have 500 MW of Intertie capacity on the DC and AC lines, and that amount is often curtailed unexpectedly or on a planned basis for maintenance.

Rachel Shimshak asked if this year's target for net secondary revenues includes sales to California. Steve answered that the targets are based on forward price forecasts and the results of models that move the energy they can to HLH and high-value months. These price forecasts reflect the marketing clearing prices across the West coast--so there is not an expectation of a certain amount being sold in California, or BC, or the PNW.

Ralph Cavanagh asserted that this is likely not a place where the Sounding Board could be helpful, given that Steve Oliver is so experienced. He said that he hopes the transmission system will be better in the future after all of the TBL's investments come to pass. He wondered if there could be an opportunity to be more creative in dealing with California customers in light of what they are asking for.

Steve Oliver responded that it is now largely a commodity market and that our price forecasts are good and they represent well what we expect to get from our sales, regardless of the geographic location of the buyer. It is a well-functioning market and we do well at finding a high value for our products. If there were more in terms of long-term surpluses–there might be more bilateral agreements, but there are no long-term surpluses now, no DSIs are operating, so BPA's marketing is not focused on placing a long-term surplus.

Instead, we focus almost quarter by quarter, being cautious about marketing forward. We do so only when there is a high probability of supply, such as in the spring months. Steve added that most of the long-term contracts we have with California parties were signed in 1995/96 when BPA did have a long-term surplus because public customers were leaving the system.

Ralph Cavanagh then asked about the difference between critical water and average surplus, and wondered if California parties might be willing to pay a premium to have first call on such a surplus.

Steve responded that such a scenario would be unlikely because in high water years energy is abundant and prices tend to be low. We'd more likely have to give them a discount to sign up ahead of time for such a product. He went on to say that BPA would look at the forthcoming RFP from California to see if there were any opportunities.

Howard Schwartz asked about the possibility of arbitraging conservation–that is, buying back the power from utilities that do conservation programs and selling that as surplus? Steve responded that such an idea has been raised before, and he's working on it with Mike Weedall's staff. He cautioned that there are big issues regarding the durability of measures, up front costs, and at first blush it looked like it was not economic for the first 9 years or so. He said it was a good question, and we're working on a better answer. Regardless, it's unlikely to have an impact in FY 04 or 05.

The next presentation, by Lynn Aspaas and Sarah Bermejo, discussed both opportunities and risks associated with PBL's Ancillary and Reserve Service marketing efforts. The presentation focused on possible revenue enhancements from the marketing of Reserve Services beyond FY 05. Lynn rolled out PBL's new marketing campaign featuring the slogan *"Your Reserves Supplier of Choice."* The Reserve Services revenue target is $1.9 million for both FY 04 and FY05. The point was made this revenue target is included in the SN CRAC August 28th forecast, thus any revenues above target would contribute to the agency's $100 million revenue enhancement and cost reduction goal. However, Lynn emphasized that transmission contract holders are exercising supplier choice (increasing Ancillary Services, namely Operating Reserves competition) thus, PBL's ability to meet the FY 04 and FY05 revenue targets will be a challenge. Another point emphasized was that PBL, as the Merchant affiliate, is FERC prohibited from competing with TBL to meet the control area obligation. Therefore, PBL's marketing strategy targets entities with reserve obligations outside of BPA's control area where PBL may directly market and compete for Ancillary Service business.

Sarah restated that the Reserve Services Marketing Strategy team believes that the $1.9 million target for both FY 04 and FY 05 are aggressive and will likely not be met. Sarah stressed the importance of market position to preserve market share within the control area while increasing market share outside of the BPA control area.

Steve Oliver reinforced the importance and novelty of the new reserve services marketing campaign, pointing out that this was a great example of the efforts BPA goes to in looking for new revenue improvements. And often BPA has to do this in the face of objections from other market participants who do not feel that they should have to compete with a government agency. He views the FCRPS as something with great value, especially in the area of reserves and it is a very valuable resource for the future. In closing, the point was made that time and patience coupled with mitigating risks and seizing opportunities will be paramount to our marketing campaign success.

Ralph Cavanagh asked for a clarification on the $1.9 million revenue target. Sarah answered that it strictly applies to Reserve Services and should not be confused with the approximately $80 million that PBL receives from TBL for providing generation inputs to fulfill TBL's Ancillary Services sales obligations.

Lyn Williams asked if the price for reserve services is market-based. Steve answer that it was, and we sell these services under the FPS rate schedule, which limits the price to $34/MW-month.

Paul Norman summarized the discussion and noted that reserve services is probably not going to contribute to the $100 million target, especially since there is already an $18 million loss in revenues due to competition for the sale of ancillary services. However, the reserve services group is doing a creative job of setting up our marketing efforts for reserve services over the long term.

Trojan Decommissioning

David Steele then took the group through a 3-page presentation on the costs associated with the decommissioning of the Trojan nuclear plant. BPA has responsibility for these costs by way of a net-billing agreement with EWEB, who holds a 30 percent share in the nuclear plant. David told the group that there is a net savings of $10.8 million in this category of expenses created by the availability of cash and the use of the Trojan Decommissioning Trust fund. The costs of decommissioning have not changed, but the availability of funds from these two sources has covered $10.8 million of the costs, with the result being a $10.8 million savings.

Ralph Cavanagh asked what is left to do to complete decommissioning at Trojan. David responded there is the final radiological survey to complete (45 percent to-date complete), complete remediation, and terminate Part 50 license.

Howard Schwartz asked how costs were shared. David responded that BPA pays EWEB's 30 percent share of the costs through a net billing agreement.

Paul Norman then moved the group to the last presentation before the break on Net Interest Expense. He stated that it is the biggest component of progress toward the $100 million goal, and reminded the group that we are counting these savings based on a prior Sounding Board discussion, but with a special asterisk to note that these reductions are not the main expected source of reductions when the Sounding Board was formed, and that the net interest savings are likely to be more than offset by lower-than-expected secondary net revenues.

Claudia Andrews pointed the group to the Net Interest Expense packet. She noted that the presentation deals entirely with the debt assigned to the PBL and is not the full agency picture of net interest expenses. On page 2, Claudia explained a chart showing that different components of the Net Interest Expense category are more or less within BPA's control. She then moved on to the table on page 3, explaining each line and its contribution to the savings in net interest expense. There are savings of $35 million for FY 04, and most of that results from the delay in putting some projects in service that are part of the Columbia Basin Fish Mitigation project. Some major portions–physical structures such as the corner collector at Bonneville Dam, were not put in service as planned in 2003. Since PBL does not begin to pay interest on a project until it is in service, these delays have created savings in interest expenses. This category accounts for $19 million of the $35 million saved in FY 04.

Ralph Cavanagh commented that it was unfortunate that these projects were not helping fish as much as planned, and wondered if the issue was around availability of funds from appropriations to the Corps. Someone in the group responded that the impact isn't clear. For example, the removable spillways were not being installed as quickly as originally planned because they were not getting appropriations from Congress. So the one at Ice Harbor was not installed this year as planned.

Claudia moved on to explain that another large component of the net interest savings was a savings of $13 million on long-term debt, mostly due to lower than expected interest rates. Another contribution comes from a smaller credit due to lower interest rates from the BPA fund. Also, AFUDC costs are down due to delays in plant in service dates.

Paul Norman asked what the rate was for AFUDC. Claudia responded that she didn't know exactly, but it was similar to a short term borrowing rate. Claudia then moved on to the estimate of $30 million in reduced net interest expenses for FY 05, which reflects lower borrowing again next year.

Paul then told the group that he couldn't think of anything in this category to seek advice on from the group because so much of it is outside of our control. Rachel Shimshak commented that it is nonetheless good news.

Ralph Cavanagh asked if BPA had sufficient access to capital? If there were more access would there be more savings, he asked. Claudia said that BPA is unlikely to get increased access to Federal borrowing, and that we in fact were encouraged to look elsewhere. As a result, we just completed a somewhat unique lease arrangement for the construction of the Schultz-Wautoma transmission line. We got a very good rate–about 30 basis points higher than the cost of Federal debt. But it was a very labor-intensive process for BPA staff.

Ralph Cavanagh noted the time, and asked Paul Norman how he wanted the discussion with Administrator Wright to go. Paul said that he would first go over the table of progress to date, and then he hoped that the Sounding Board would share its views on the questions included in the agenda about the process so far, and where the group wanted to go next.

<u>Sounding Board Discussion with Administrator Wright</u>

After the break, Steve Wright joined the group. Paul Norman began by stating that this is the Sounding Board's midpoint review. We have held several meetings and have gone through our opportunity areas to find the $100 million. Paul then went through the summary sheet on progress to date toward that goal. Paul indicated that in Internal Operations we have identified $3 million and as we get closer to June, we will know whether or not we are able to get the additional $3 million we are currently forecasting. Conservation revenues and expenses are about a wash. Columbia Generating Station costs are going up partly due to increased security costs. Vic Parrish has indicated that they are reducing staff by about 100. Corps and Bureau O&M—we are confident enough to count $3 million in FY04 and are working on FY05. For Renewables there is a net $11 million cost reduction since the geothermal project won't be coming on-line. This is primarily a reduction in the LBCRAC not the SN. Trojan Decommissioning cost is down by $10.8 million. For Fish and Wildlife there is an increase, but we are hoping for some river operations changes that would off set that. And with counting part of the Net Interest Expense savings, we have made significant progress, but we aren't there yet.

We asked the Sounding Board three questions for this meeting: What are the highest priority areas of continued focus between now and June? What frequency and type of Sounding Board engagement? How can this type of process for providing input on BPA cost and revenue issues be improved?

Ralph Cavanagh stated that in terms of what BPA is doing by diving into the core functions of the agency, it is doing very well. He indicated that there could be 2 structural areas where there might be opportunities to find savings. The one area is the foregone revenue from irrigation withdrawals. Also there might be the ability to find some ways to generate more revenues in long-term markets. Steve Oliver explained that they are looking at the RFPs out of California and they haven't been the type of product BPA can provide, but there may be other things in the future that could spur the California markets and provide long-term opportunities for BPA.

Steve Wright thanked the Sounding Board. By going through this process, it has been good for BPA. It has spurred conversation internally and focused our efforts. The time and effort the Sounding Board members have given has been very helpful and appreciated.

Ralph Goode indicated that he thought there were some opportunities in the river operations arena, but going forward to look at that we would need to ask if it was cost-effective. BPA has been very open and honest and it has been a good learning process.

Steve Eldrige indicated that BPA has made great strides to be transparent and provide information that is understandable. He also indicated that if the Sounding Board was going to look at irrigation, it should look at the other river operations, such as flood control, on an equal basis. Over the years, at the urging of customers and others, BPA has played "Daddy Warbucks." We can't fund everything through power rates. We need to get issues out in front of people about what it really costs for various programs to support public policy. Otherwise it is just a hidden tax. He doesn't believe that the Administrator will be able to reach a regional consensus unless it is all on the table. CGS should hold the line.

John Saven asked for a clarification on the Fish and Wildlife line item on the summary sheet and what the $1.5 million increase was. Michelle Manary indicated that this was a carryover of the high priority projects that didn't get finished last fiscal year and will be accounted for this fiscal year. Paul Norman stated that what he is hoping is that the increase in cost in line 8 will be off-set by any revenue enhancements we gain from a revised summer spill operation.

John Saven continued by saying that going back to what the initial charge of the Sounding Board in his opinion was to give credibility to the agency effort to seek net revenue improvements of $100 million as part of the IOU/Public settlement and to eliminate the SNCRAC in FY05. The net interest expense savings doesn't move me. When BPA announces what they have done to find the $100 million, other customers probably won't be moved by it either. There are legitimate public policy issues that need to be wrestled with such as where GTA costs are—PBL or TBL rates.

Jason Eisdorfer indicated that there are policy decisions being made outside of this group such a spill and conservation that should be made in public forums. For this group we should challenge staff to find efficiencies that are long-term. In his opinion, the net interest savings may be more real than to others, but the key is to identify long-term efficiencies in the way they are implementing current policies.

Kris Mikkelsen stated that she appreciated the quality of the information. She also stated that at the GM workgroups the information was at a much higher level and she appreciated having the closer look at the larger program areas. She also stated that she felt pretty good about all of the categories except CGS. The information presented raised more questions than it answered--especially the differences in the various studies that have been performed on benchmarking. The Corps and Bureau seem very efficient. She would like the opportunity to have some follow-on questions about the disposal of spent fuel and why the cost is so high. Kris thought that the Sounding Board could use some additional information from CGS.

Jason Eisdorfer noted that he agreed with Kris Mikkelsen on CGS. Pat Reiten asked if we were going to capitalize the fuel costs. Paul Norman responded that the Sounding Board indicated that they would agree with that fuel capitalization is a good idea only if it was the last option before cutting something else more critical.

Steve Eldrige asked if we are certain that we are not paying for some of ENW's side businesses. Paul indicated that care has been taken to try to categorize costs between CGS and the side businesses. Steve Wright stated that ENW would say those other business activities create excitement and new skill sets that have value for them as well as BPA. Steve also indicated it would be helpful for the Sounding Board to have some conclusion about CGS costs.

Ralph Goode stated that CGS security costs seem quite high and asked where that direction was coming from. Howard Schwartz stated that the Nuclear Regulatory Commission directs security requirements for nuclear facilities and they are at a much higher level than for other utilities and therefore the cost is much higher. Rachel Shimshak stated that of course we want CGS to be safe and reliable, but we need them to be efficient as well.

Ralph Cavanagh asked if it was an appropriate goal to have CGS in the top quartile of nuclear plants? Howard Schwartz stated that they had been in the top quartile, but had slipped below that in various performance measures and they need to improve on those. Paul Norman indicated that top quartile is an aggressive goal for CGS, given its inherent disadvantages of location and single-unit management.

Rachel Shimshak indicated that there were a wide variety of categories being looked at in seeking the $100 million. Everyone on the Sounding Board has differing opinions about levels of spending. Her concern was that at some point if you continue to reduce funding for a program you no longer maintain the integrity of the program to reach its intended goal.

Nancy Hirsh stated that during the Sounding Board review she has seen much more financial information and has a better understanding of where money is going. Moving forward from here, think that staff has been very diligent in finding savings, and she is not interested in squeezing out dimes. Unless we step up to these larger policy issues, she doesn't believe there is much more savings to be found. There might be opportunities for revenue enhancements, but not certain.

Pat Reiten stated that he appreciated the opportunity to participate on the Sounding Board and hear other perspectives outside of the utility community. He recognizes that BPA has been cutting costs and knows that it has been difficult, but it is appreciated. It appears to have focused people internally on cost savings. Pat indicated he had a list of thoughts: getting CGS in to the top quartile is essential; probably should look at capitalizing refueling costs; hope that the staff reduction Vic Parrish has proposed helps costs; Calpine is not proving out to be a reality; there is a large budget focus on ancillary services in the post-06 period; river operations decisions will be made elsewhere, so we don't need to look at that; FTE and other internal costs are not huge dollars, but the 7 percent reduction in FTE is hugely symbolic for the utility industry; TBL is too large; perhaps should look at reintegration of the two halves of BPA (PBL and TBL) which could help manage labor expenditures. The largest dollars is the risk premium for the IOU buy-down and is hopeful that a settlement is found.

Howard Schwartz stated that this has been one of the most helpful processes he's been involved with. He too was struck by CGS expenses and surprised how rapidly the costs have gone up. This should be a concern to all of us. He wondered about Energy Northwest's other business opportunities, how they were accounted for or if the funds were co-mingled. It is probably something that should be looked at. Also believes that we need to take a further look at Internal Operations expenses to see if we can't squeeze any more out of that category. BPA should do more than its core functions, but for the moment may have to cut back on programs. Customers want to see that cuts are deep enough to bleed some. The separation of the TBL and PBL appears to have cause inefficiencies, need to look at that. Washington State is not a fan of RTO and moving in that direction could increase inefficiencies. Howard also indicated that he and Tom Karier were both interested in irrigation-related costs such as the cost of foregone generation from irrigation withdrawals. This seems worth looking at to find cost savings that should benefit everyone. Maybe selling back the water is an option.

John Saven stated that he didn't think it was the Sounding Board's charge to decide where to spend more or less. He was more interested in whether or not BPA was planning to make a forward projection of the TPP that would help avoid an SNCRAC in FY 05. Was hoping to hear a commitment to do that. Would like to see some information on future rates adjusted for inflation. Look at the PF rate 07-11 with a bunch of things in and then a bunch of things out of rates. Where is the agency headed for the long-term? Staff has done an excellent job of briefing the Sounding Board on the various categories.

Lyn Williams stated that she felt that the process has been very helpful and offered her thanks to staff. She also echoed her concerns over CGS expenses. She also believes that the FY 05 numbers need to be scrubbed.

Mary Verner stated that she too would like to offer her thanks. She learned a lot about what customers, Tribes, and other stakeholders interests are. Karl Weist asked us to avoid doing anything stupid in our search for cost reductions.

Ralph Cavanagh stated that he felt that BPA has been bleeding a lot and was concerned if we continued to cut deeper in the programs. Customers may want more from BPA such as capacity or aggregating loads. Also we may be moving into riskier markets and we may not have the agency tooled up to be able to assists customers. Also there might be reasons that BPA should add resources to areas that produce revenues.

Steve Wright began to summarize what he'd heard so far. Heard a lot of praise for BPA staff and for Paul and a good process. The concept behind the Sounding Board and the goals were: (1) to identify potential opportunities for savings or revenue enhancements by reviewing the categories with our cost partners and focus attention on those things that could get us the $100 million. And (2) take a group of leaders from utilities and other stakeholders and show what it is we are doing in various categories and ask for their assistance in seeking additional cost reductions or revenue enhancements.

Steve Wright stated that FY05 rates are his highest priority. The Sounding Board process has specific categories that they were to review. Summer Spill is being decided in a different forum, but it connects up to the $100 million. An alternative to the IOU/Public settlement would go a long way toward rate reduction. A major question is whether there are categories where we have something left that needs to be challenged to come in lower.

Consider four areas: (1) We have identified cost reductions in FY04 in most cost categories, but not FY 05, which we need to do so that they can influence the result, if we use a forward looking TPP. (2) Appears to be a need for more focus on CGS costs and we should probably invite them back and have them share more information with you. (3) Need more feedback on revenue enhancements—other than summer spill. (4) Based on what this group has reviewed so far, would ask that this group produce a short report on what your thoughts have been regarding the process and where the opportunities are for cost reductions and revenue enhancements. The report should be a consensus of the group—sharing what you learned, where we should be focused. BPA would appreciate and support a report.

He said the other things discussed today are important but are probably outside of scope of things that can add to the 2004/5 cost reductions we are seeking to conclude on by June. These include GTA costs, reintegration of some functions between PBL and TBL with out violating SOC. Steve also indicated that the irrigation question is very interesting, but extremely sensitive and would have to be a win-win. He was not certain if this needed airing in a different forum.

Steve also responded that BPA has been doing a lot of work on the long-term vision for the agency, providing a clear direction of where we are heading. A draft of that will be out in the next few weeks. When the Sounding Board sees that material, you may more thoughts on long-term opportunities.

Nancy Hirsh asked exactly what this strategy document is supposed to be. Steve Wright indicated that it is a proposed vision for the long-term, not a decision document. It sets the vector we are headed in and we want to test that with our customers and stakeholders. The Regional Dialogue will be the decision process for most of the issues. This document is expected to be fluid and will need to change as things change around us.

Ralph Cavanagh indicated he welcomed the opportunity to focus on the question of broad BPA direction. He also stated that the Sounding Board has been a wonderful opportunity to hear various opinions from the various members of the group. He stated that he thought BPA did have an advantage of size that provides benefits to customers and stakeholders. He also expressed the hope that BPA is at the end of its 10 years of a minimalist BPA. He indicated that he didn't want BPA to go to either extreme, but thought that it might be time something different than the minimalist BPA.

Howard Schwartz asked Steve Wright when he would be making a decision about the forward-looking TPP. Steve indicated that he will make that decision before August.

The Sounding Board members agreed that having CGS come back for further discussion would be appropriate. Lyn Williams indicated that we should give them some time to pull together the information. Ralph Cavanagh indicated that he would like to see more on CGS actuals over time and what they are forecasting for future years.

Paul Norman indicated that the Sounding Board would also be reviewing the Internal Cost category more. Staff would work up a schedule to suggest back to you about how to proceed from here to June. Steve would like to have a closeout meeting with the Board.