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

Attendees: Lyn Williams (PGE), Steve Eldrige (Umatilla Electric), Howard Schwartz (State of Washington), Ralph Goode (Mission Valley Power), Steve Loveland (Springfield Utility Board), Ralph Cavanagh (NRDC), Jerry Leone (PPC), John Saven (NRU); Larry Cassidy (NPCC); Mark Walker (NPCC); Mary Verner (Upper Columbia United Tribes)

BPA Attendees: Paul Norman, Michelle Manary, John Pyrch, David Steele, Mark Jones, Mike Alder, Deb Malin

Corps of Engineers Attendees: Pete Gibson and Kimberly Oldham

Bureau of Reclamation Attendees: Karl Wirkus, and Terry Kent

Introduction

Paul Norman indicated that this meeting would be the final run through of the remaining categories being reviewed by the Sounding Board. We will also take time today to discuss the wrap-up of the Sounding Board and the final report.

On the first page of the package is the table showing progress to date toward our $100 million goal. The total is currently at $106 million and does not include anything for Summer Spill. $75 million is in net interest cost reduction and $31 million of other expense reductions. The change from the last time you saw this table is Internal Costs are down another $7 million. The genesis of the Sounding Board was from our first attempt to settle with the IOUs, we agreed to convene a group to look for $100 million in cost reductions or revenue enhancements in support of the effort to zero out the SN CRAC for 2005. We are still facing that decision. We are transitioning from the Sounding Board effort to find cost reductions and revenue improvements to the decision process on the 2005 SN CRAC. That decision process involves taking the Sounding Board results and assessing our overall financial outlook for FY 2004, 05 and 06; including our forecasts of gas and market prices, and what our Treasury payment probability will be. We will publish drafts of all that information at the end of the month and provide customers and stakeholders an opportunity to comment.

Steve Loveland asked where we were on the forecast. Seems like gas prices are up right now. Will you be sharing that information at the first of July? Paul Norman indicated that he is expecting that, yes; we will be sharing that information by the end of the month. *[A letter was subsequently sent saying that this information would be available on June 25.]*

John Saven asked to what extent would the savings the Sounding Board achieved be applied to rates and to what extent would it depend upon a forward looking TPP.

Paul Norman indicated that savings for FY04 would count either way. For FY05 it counts with a forward-looking TPP. The Administrator has indicated that he is seriously considering to using a forward-looking TPP, but wants to see the financial results before he makes a final decision.

Steve Eldrige asked if everything comes together, would rates stay about the same.

Paul Norman indicated that with the agreement with the IOUs, we have moved $200 million of costs out of FY05 and 06, which mean rates will be approximately 6 percent lower than they otherwise would have been. If we are able to also zero out the SN CRAC, there would be an overall rate reduction somewhere in the neighborhood of 5 percent.

Ralph Cavanagh asked if there would be a chance to change the numbers for the revenue enhancements. He still would like to talk to Steve Oliver and believes that there is a strong argument to include a larger placeholder.

Paul said that we would talk about that later in the meeting, and that the philosophy we were applying was to "count" cost reductions and revenue improvements that look like something we can count on; however, if we are viewing improvements only as "promising" we are not putting in those dollars.

Net Interest

Michelle Manary took the group through the changes on pages 4 and 5 of the package. For FY05 several items may cause the forecast of net interest expense to change when we get the 3rd Quarter numbers.

Steve Eldrige stated that the Columbia River Fish Mitigation estimates going from $20.7 million to approximately $75 million is a huge increase. He also asked if it looked like the savings off set by the increase were numbers that we should be counting for the $100 million. Michelle indicated that best guess right now is that we would see an overall $10 million decrease. Paul Norman indicated that the numbers are volatile and not ready to count them yet, but we would know in time to do the rate calculation.

Fish and Wildlife

Michelle moved on to page 7 of the presentation package covering Fish and Wildlife Program expenses. Larry Cassidy expressed concerns that dollars available for the direct program were being constrained by BPA accounting changes and costs from prior years unexpectedly showing up. He said he saw recent improvements in contract management practices, but that program funding had been seriously squeezed. He also indicated that the Council is very committed to managing within available funds. Steve Eldrige asked if it is better to manage a budget over multiple years or to have a 1-year budget. Rolling over money from one year to the next seems hard to track. Paul Norman indicated that in general we do not roll budget forward from year to year, but for the direct program we had committed to manage to a rate period average of $139 million, with inter year flexibility. Steve Loveland urged that the $139 million be maintained as a hard constraint.

Conservation:

John Pyrch, PBL Energy Efficiency Implementation Manager, took the group through the table on page 14 indicating that very little had changed since the presentation in February. Lyn Williams asked if we thought that there would be additional bills from Legacy Conservation contracts coming in FY05. John Pyrch responded that we believe that we have captured those expenses in this forecast.

Steve Eldrige asked if there wasn't a diminishing pool of conservation savings to be realized. John Pyrch indicated that for the low-income folks at our current pace, it would take many years to get through the backlog. Steve Eldrige indicated that in his service territory a lot of the low-income housing was trailer houses and there wasn't much that could be done with those. John indicated that there were some things that could be done. Ralph Cavanagh remembered that the Weatherization Council put something together on trailer houses. John Pyrch said that he would have Gene Ferguson get back to Steve on what information they had that would be of assistance.

John then took the Board through the material on page 16 indicating that for FY05 the reimbursable program would be rate neutral. The new NEEA support agreement resulted in a slight reduction ($0.1 million) in the Market Transformation budget. Ralph Cavanagh asked why that was the case. Ralph continued that the NEEA program was the best (most cost-effective) program in the U.S. or elsewhere. We should be talking about doubling that budget, not reducing it.

John responded that NEEA funding for the next 2 years has been set, however, in 2006 the Council Power Plan will come out with new conservation targets. We will have to decide what the least-cost means of accomplishing the Council goals starting 2007. NEEA funding level will be part of that discussion. Ralph Cavanagh indicated that in essence BPA sets the NEEA funding level. Other utilities wait to see what BPA is funding and then submit their funding accordingly.

Steve Eldrige wondered whether investors in NEEA could get a better return or if the program would be more effective if it was more distributed and less centralized. He also indicated that he would like to understand NEEA better. John Pyrch said he would put together a complete package and send it to Mr. Eldrige. *[The package of NEEA information was sent to Mr. Eldrige on June 21, 2004.]*

<u>Renewables</u>

Deb Malin, Renewable Energy Account Executive, took the Board through the table on page 18 indicating that the only changes from the previous presentation was due to sharpening their pencils for FY04 and Maiden Wind Farm termination payment of $250,000 being pushed out of FY04 and into FY05. These actions brought the FY04 budget from $23.8 million to $20.9 million. Calpine has had trouble proving the geothermal resource at the Fourmile Hill Project and they are not yet at the point of drilling. As a consequence, the power purchase costs associated with this project have been moved out from FY05 to FY07. Calpine is running out of time to prove this resource and BPA is moving towards arbitration to terminate the contract.

Deb Malin also indicated that the material that was sent out in the paper responding to Sounding Board's questions hasn't been updated and she will get the corrected information out to the Board.

Steve Eldrige indicated that most of the wind in his service territory is away from available transmission. There is also a disincentive to invest in wind due to them having the Slice product which requires a 1-for-1 displacement of hydro. It would be better if we didn't have to give up something to have wind. Perhaps that will be discussed in the post-2006 allocation debates. Paul Norman indicated that our goal is to facilitate wind development so we don't have to acquire new resources. We should look at this issue during Regional Dialogue.

Internal

Dave Steele, PBL Budget Analyst, went through the material on page 21 on internal operations expenses charged to the PBL. Internal operations costs are the most controllable costs and have been under intense scrutiny over the past 2 years to find further savings. The SN CRAC rate case assumed a 2-year spending level of $215 million. By 2nd quarter we had reduced costs in FY04 by $3.2 million. With a bottom up review, we have been able to cut an additional $7 million for FY 04-05.

Steve Eldrige asked if there were fewer positions and if this was something that would continue over time. Dave indicated that there were fewer positions and expected that staffing levels would not go back up.

Dave then turned to page 22 going through the major areas of cost cutting. There was a question about what service contracts were and Dave responded that these contracts are for consultants, price forecast services and the like.

Jerry Leone asked what was included in staffing costs. Dave responded that it included salaries, benefits, and cost of living increases.

Steve Eldrige asked what the "Mission Critical" guidance was. Dave replied that this guidance from Paul Norman that told employees in FY03 that every discretionary spending decision was to be cut unless there was a demonstrable threat to keeping the lights on or the like if that particular expenditure were not made.

Steve Eldrige asked what was in the materials and equipment line. Dave Steele responded that it was for office equipment and supplies and similar items. Steve Eldrige wanted to know if other groups within BPA were looking at their numbers as rigorously. Dave responded that Corporate costs are being more scrutinized this summer. Steve asked what was included in Corporate. Dave responded that it included the Administrator's staff, Corporate Communications, Shared Services, Legal, Human Resources, Safety, EEO, Business Service, Finance, and Environment, Fish & Wildlife. Most of the costs are split 50/50 between the TBL and the PBL. Paul Norman indicated there are *[these are updated numbers since the Sounding Board meeting]* 710 FTE in Corporate, 2035 in TBL, and 429 FTE in PBL for a total of 3191. Steve Loveland asked if there was a break down of who charges to the PBL. Dave Steele responded that actual Corporate G&A costs are between 200-300 people equivalent charged to power.

Steve Eldrige asked if we had done any bench marking against other large utilities. Paul indicated that we had hired KEMA to help us with internal process efficiency. We have received a preliminary briefing on their findings and it indicates that BPA could accomplish its work with fewer people. They indicate that the way we have implemented the FERC Standards of Conduct is causing us to incur costs that are higher than other utilities. We plan to aggressively follow-up on these recommendations. It may mean a more fundamental reshaping of how we do business—some revamping of processes and procedures—while still being in compliance with Standards of Conduct.

We are also seeking the authority to offer Voluntary Early Retirements and Voluntary Separation Incentives. There is a new process that we need to go through to get this authority from the Office of Personnel Management (OPM). We are beginning that process.

Steve Eldrige asked if BPA was focused on funding levels for staff or just the number of BPA staff. He was concerned that in the past we have rehired retirees back as contractors and wanted to know if we expected that to happen this time. Paul Norman indicated that we are most focused on costs, but that FTE is a flag that flies rather obviously that people can see. .

John Saven asked if there are actual dollar amounts in detail for FY02-06, comparing what BPA is spending in these various areas. Paul Norman indicated that we have a lot of detail and will make that information available.

Jerry Leone asked what the "Trading Floor deal capture" item was under "Forecast Risk." Paul Norman said the deal capture system performs functions such as assuring that other BPA information systems are fed accurate and timely information about trading floor transactions. However, there are concerns about whether the current system will be adequate as demands on it change; therefore, we have included that as a possible cost risk.

Jerry Leone asked how much it cost to support the Allen Burns organization. Paul Norman indicated that the Industry Restructuring group costs are allocated to both PBL and TBL and on a 40/60 split. Power's share for FY 2004 is $1.4 million, and TBL's share is $2.1 million. The real risk is if and when Grid West is formed there could be large costs for new IT and scheduling systems. We currently aren't budgeting for those impacts, but believe that in FY06 we could see things coming out of the Grid West formation that could have funding impacts on the PBL.

Steve Eldrige asked if there were Corporate costs that are not covered by power or transmission rates. Paul responded that there are not. Dave Steele indicated Linda Dinan presented a detailed picture of Corporate G&A used in the General Manager (GM) meetings last year that gives a clear picture of what functions and costs are in Corporate that we could provide the Sounding Board. Paul said we would 'dust off' that information and provide it to the Sounding Board.

John Saven asked about how cost of living adjustments are set. Dave explained that the Office of Personnel Management is the group that sets COLAs for Federal employees--BPA doesn't set them. There are locality pay adjustments on top of the COLAs for places such as Portland and Seattle.

<u>Sounding Board Report</u>

Ralph Cavanagh indicated that the Sounding Board members should all have a copy of the revised draft report. The comments that have been received have been incorporated in the draft.

Lyn Williams indicated that Steve Eldrige and Ralph Cavanagh had done a great job of capturing the Sounding Board results. The reference in the report to Integrated Resource Planning—many customers don't do or want to do that—but the IOUs go through this open planning process with the Public Utility Commissions. PGE would be glad to share that process with BPA if they would find it helpful. Paul Norman indicated that BPA's strategic direction was to minimize its need to buy resources, but in the event we do have to buy resources, we could use that system.

Jerry Leone stated that there is a reference to "maximizing profits" in the report that needs to be changed. The Sounding Board agreed with this. Ralph Cavanagh indicated that he was trying to capture several comments and may have missed that one, but would make that change. Ralph suggested that since there is 2 weeks before we close out this process, everyone take another week to comment and then turn that around before the June 30th meeting. Please make sure we receive comments on important items that are missing in the report as well as editorial comments. Steve Eldrige indicated this will be a summary of the overall effort not a progress report so there will be more to the report after today. Ralph agreed that we would be looking at an updated version by June 30th and then make last minute additions/changes that could be discussed at that meeting and then finalized via e-mail.

Paul Norman thanked both Ralph Cavanagh and Steve Eldrige for helping to get this report written.

Steve Eldrige asked how we could keep the momentum achieved by the Sounding Board alive and moving forward. He was involved in the Function-by-Function Review, which was a good process, but didn't have staying power. He wondered if there could be an annual reporting to this or a similar group. Lyn Williams agreed that it might be useful to re-institute the Sounding Board once a year to look at events and costs. Paul Norman indicated that one of the things that the Sounding Board should opine on to Steve Wright is what shape or form this effort should continue. BPA is open on this point.

Jerry Leone asked about the Customer Collaborative group. Paul indicated that that is not a BPA-sponsored group, but a customer-sponsored group that BPA has been invited to participate in. The Sounding Board is unique in that it has customers represented as well as non-customers

Costs for Corps and Reclamation for FY 2005.

Mike Alder, Hydro Program Manager, BPA, had the group turn to page 34. Paul Norman noted that since the initial Sounding Board briefing on Corps/Bureau costs the Corps and BPA had concluded that a $2 million reduction in FY04 expenses was achievable and this had been added to the Sounding Board summary sheet.

Mike Alder, in reviewing Corps O&M costs, identified the issue of extraordinary maintenance costs. These were first identified in FY 2002 when that year's actual expenditures exceeded costs of FY 2001 by 14 percent, partly due to $6 million of extraordinary maintenance expense costs that were not forecast. The costs were not forecasted because they were originally thought to be capital investments that when the books were reconciled at year-end were deemed to be expenses according to Corps accounting regulations. These extraordinary maintenance costs are large activity, and hence high dollar maintenance items that occur infrequently over the life of a structure or piece of equipment. Since they do not extend the life or upgrade the performance of the equipment or structure they are expenses and cannot be capitalized.

Then in FY 2003, spending was about the same as in FY 2002, because they were able to hold the extraordinary maintenance costs below forecasted, as well as security costs.

Lyn Williams asked what these extraordinary maintenance items were. Mike responded that they are major repair or refurbishments (intake gates, head gates, cavitation repair, etc.) that are required to keep the projects running and that occur outside of the planned capital program. These costs are due to the chronic past under-investment in the FCRPS. They are unforecasted in the main asset management program and they have to be covered as an expense when they occur.

Steve Eldrige asked how this situation got away from the Corps – especially cavitation on turbine blades. Pete Gibson of the Corps responded that, for example, at Lower Granite, they had used an epoxy based system rather than welding for the blade repair. It was discovered afterwards that it was not working well, and that they had to re-do those repairs earlier than expected. The other issue, as noted by Mike, was that it wasn't noticed that these costs were being treated as capital, when they should have been treated as expenses.

John Saven asked what happens when you discover problems like this? Do you just go fix it and send BPA the bill? Pete responded that, as long as it is within the forecasted budget amount, and for that year, O&M staff work together to be sure the money is spent only if it needs to be spent. Then they look for opportunities to save money in other categories, possibly deferring maintenance, so that they meet the total O&M budget for that year.

Mike added that they all work as a collaborative group across all three agencies to manage the O&M program. This group meets regularly so that they can review expenditures against priorities for system performance and reliability. He said that they do still need to figure out how to deal with extraordinary expenses since they tend to be rather large.

John Saven commented that for things that affect the value of the river, like spill, he hopes that the three agencies work very closely together.

Steve Eldrige asked if the maintenance schedule was based on a prediction of when things would be needed, or more of a preventive maintenance program.

Pete Gibson responded that the Corps is establishing a power operations and maintenance review program, which for each project includes a 4-day assessment of processes and management practices in the areas of electrical maintenance, mechanical maintenance, operations and management. This year they've completed reviews at three projects, Chief Joseph, The Dalles and McNary. This project review was modeled on the program that Reclamation started, and for these initial reviews, Corps staff shadowed Reclamation to get their help and to see if the O&M program was consistent in maintenance and operations practices. This was put in place, Pete said, so that they could better target where to spend O&M funds, and then explain why it was spent that way.

Steve Eldrige continued to ask if they would be assessing whether or not there is an over-reliance on contract labor. Pete Gibson said that when they got involved in the partnership with BPA, it was a more reliable source of funding than with appropriations. Prior to direct funding, resources were stretched to cover unplanned costs and we started to put more emphasis on break down maintenance than preventive maintenance. They are trying to return to a more preventive/predictive type maintenance program through the direct-funding agreements, and are assessing all aspects of the maintenance program.

Steve Eldrige asked if they had downsized too far and lost expertise as a result? Pete Gibson said that was part of the assessments done on each project. At each project they considered where they should keep those on staff and when to contract things out – like rewinds.

Steve Loveland asked about the costs for fish operations and maintenance. Mike Alder answered that fish-related O&M costs are about $35 million per year over the rate period, and they are related to increased fish O&M requirements at the projects as a result of the Biological Opinion. Back to page 36, Mike pointed out that the Corps O&M budget for FY 2003 remained stable relative to FY 2002. That year security expenses due to 9/11 were covered by appropriations for both the Corps and Reclamation. BPA repaid the Federal treasury at year-end for Corps appropriated security costs. After 9/11, the government funded increased security costs through appropriations nation-wide for the Corps and Reclamation. The Corps determined that these costs were reimbursable (BPA repaid Treasury) and Reclamation determined that they were non-reimbursable (BPA did not have to repay Treasury).

Steve Eldrige remarked that it seems hard to believe that all security costs are attributable to the power function of the projects.

Mike answered that Steve was right – that power only pays a portion of these costs. He also reminded folks though of the re-allocation of the costs of Grand Coulee from a couple of years ago where the power portion is now 92 percent instead of 70 percent of that project's costs. All projects have an O&M power allocation, which applies to security costs as well as other costs.

Moving on to FY 2004, Mike pointed out that there are some Corps O&M issues for this year, and that the Corps may have to cover increases in some categories in order to stay within the established budget. Currently, they are about $2 million below the forecast for security costs, but the oil spill at The Dalles may cause some unexpected costs to be incurred. They also have several project power operations and maintenance reviews underway, which may identify areas where additional resources are required to ensure system performance and reliability

Steve Eldrige asked how they were going to avoid a big spike in costs soon, given the age of the powerhouses? Pete Gibson answered that the capital program would deal with a lot of that issue – which is why there is a $100 million capital program underway in the FCRPS.

Mike Alder added that through the Integrated Business Management Process, the agencies jointly are investing $100 million per year on top of the O&M expenses, partly to avoid a spike in costs and maintain reliability. Particularly for the Corps projects there may be outstanding issues that need funding because of the history of under-investment.

Steve continued by asking if they were putting monitoring in place to increase the ability to predict when repairs might be needed. Pete Gibson responded that they are doing some of that – particularly with turbine rewinds. Mike added that there are many efforts that focus on managing the capital and O&M program and budgets.

Pete Gibson added that they are trying to do life cycle studies that are good for setting up wise maintenance programs, resulting in a more cost-effective resource in the long term.

John Saven asked how the benchmarks were created. Mike answered that there are a couple of benchmarking efforts that are part of the business model. The primary one the FCRPS participates in is from Haddon- Jackson and Associates and are results on benchmarking Corps and Reclamation plants against equivalent-sized and age plants from the major hydro facilities in the US and Canada.

Moving on to page 37 and looking at the budgets of the Bureau of Reclamation (Reclamation) over time, Mike noted that the FY 2004 expenditures are running $1 million below forecast, and should probably go down another $2 million relative to the August 2003 rate case forecast. Paul Norman asked if that change should be counted now toward the $100 million goal of the group. Terry Kent from Reclamation responded that it probably could – that they felt that the total of a $3 million savings this year was a pretty solid number.

Continuing on to page 39, Mike Alder explained the changes in expenditures by Reclamation since FY 2002. Expenses in FY 2002 were less than those in FY 2001 largely because of the post 9/11 security costs that were covered by non-reimbursable appropriated funds. In some cases, project staff labor was directed at security activities and time was charged to non-reimbursable appropriations for security, instead of BPA direct funded O&M.

In FY 2003, expenditures were about 5 percent over those of FY 2002, mostly for accounting-related reasons. Imputed irrigation expenses and a manual reconciliation of workmen's compensation costs added to the expense costs for that year. The accounting regulations for these costs are being reviewed. Additionally, there was a small increase in year-end appropriation costs BPA has to repay Treasury.

Then this year, as already noted, Reclamation expects to save $3 million over the rate case in spite of some additional costs. It was noted that some issues exist beginning next year, that cause those budgets to increase over FY 2004's expenditure level by about $5 million each year.

With respect to opportunities for cost reductions in 2005, Mike Alder reported that the Corps is trying to manage within the budget set at the August 28, 2003 workshop. There are some challenges however, particularly the oil spill at The Dalles dam, and reviews of oil spill containment capabilities at other projects that could create some unexpected expenses and resource requirements. They are also trying to manage the extraordinary maintenance costs within the O&M budget.

Reclamation is sticking with the FY 05 forecast from August 2003. In the process, they are absorbing $4.5 million in increased security costs that are now reimbursable, as well as $2 million that moved from the capital program to the expense budget.

The group expressed its appreciation for the Corps and Reclamation success in adding some $7 million per year in security costs for hydropower facilities without cutting into the proposed net cost reductions.

Steve Eldrige opined that it seemed that there was some wiggle room in these FY 05 budgets given that they are above budgets for the previous years.

Terry Kent responded that they are committed to managing the new (to BPA) security costs within the budgets provided.

Steve Eldrige asked about the number of employees and payroll costs at Reclamation. Terry Kent answered that the project numbers are about level with previous years. Also, that they cover the costs of personnel at the Denver office as they use those resources.

Steve Eldrige asked if there were any tables that they'd developed over time showing the number of employees doing the different kinds of work. Terry Kent said tables existed showing staffing levels and that we provided information on historical FTE's in an earlier Sounding Board question. Steve Eldrige wanted to be assured that staffing at the projects reflects that they are not building dams any more. He'd like to see staffing information compared to privately owned projects and not just Federal ones.

Terry Kent said that the benchmarking study includes both private and public projects. Steve Eldrige said he wanted to see how staffing at Federal projects compares to privately owned projects. He asked if they've ever compared staffing across projects to see if they've done all they could to reduce staff.

Mike Alder responded that there has been benchmarking done on all the federal projects for staffing levels and costs within the operations and maintenance categories. Its pretty complicated, but the result is some very solid comparisons with other hydro utilities like BC Hydro, NY Power Authority, Hydro Quebec, and Chelan among others. Annually, several FCRPS plants go through the benchmarking study basis. After the study is completed we focus our attention on areas with the largest gaps. Some of our projects are top performers. Terry Kent added that they are compared by size and other attributes in the benchmarking studies.

Steve E. commented that we are all trying to demonstrate where we can that we are sure that we're providing the best value for the cost.

Mike Alder added that there are a number of initiatives underway to meet the goal of maintaining the value of the FCRPS for the region. They can always cut budgets, but the impacts can be hard to quantify. Many times, those impacts don't appear immediately. BPA and its generating partners need to establish what Best Practices are with respect to O&M performance and reliability – and they are working on that as a way to determine budgets.

Steve Eldrige then stated that he thinks its important to staff the projects right, to do the right O&M activities, and then to not have ever-increasing budgets as exist during this rate period.

Mike Alder pointed out that with the increases in budget there is an offsetting increase in revenue as the capital investments allow for additional generation. Moving to page 41, Mike pointed out that the plant maintenance performance indicator help BPA and its federal partners make smart business decisions regarding the use of capital and expense funds. Referring to page 42, Mike Alder reviewed the management initiatives that are underway to ensure that the projects continue to provide value to the region. Several have been described already. He noted the additional 20 aMW of generation due to the development of the Near Real Time Operations (NRTO) program is a case where there has been a small investment resulting in a significant increase in revenue.

But, as outlined on page 43, risks continue, such as the extraordinary maintenance costs already discussed. Those expenses need to be moved to the base O&M program so that they can be managed with the other similar investment decisions. For example, work on managing security cost increases and the upcoming Willamette Biological Opinion that may add stress to the budgets.

Ralph Cavanagh asked what the total security costs are for the Corps and Reclamation. Mike answered that it is about $7 million per year. Ralph C asked if they were all new costs, and Mike said yes. Furthermore, he pointed out that the increase is being absorbed within the existing budget targets.

Steve Eldrige asked if the security employees have to be federal employees. Terry Kent answered that there are a combination of Federal and non-Federal, such as local law enforcement. Pete Gibson added that at the Corp, security personnel are all contractors, plus they have contracts with local law enforcement.

John Saven asked, for Federal action agencies and the new Biological Opinion for the Columbia River, do you have the ability to respond to that for operation of the FCRPS?

Mike answered that for O&M expenses related to fish operations, there's a possibility that they may need additional funding.

At this point, Mike handed out an example of extraordinary maintenance at the Chief Joseph project, and noted the complexity of the issues around such activities. He commented that this is one unit out of 209 generating units on the system. The cost estimate may be as much as $340,000, with the unit potentially being out for 4-6 months. There may be an energy impact if the outage extends into winter, and perhaps a capacity impact this summer depending on stream flows and operations.

Howard Schwartz asked about the 20 aMW of additional generation – what's the cost of under-funding the maintenance and not doing it? Mike answered that there's a base level of funding required to meet system performance and reliability goals. You may see a short-term cost reduction that increases costs in the long term.

Howard asked about enhancing performance. Mike answered that capital investments do increase productivity, as well as operational enhancements.

Ralph Cavanagh asked if BPA and its partners are aggressively looking for operational improvements. Mike Alder answered that we're looking at potential cost savings from further remoting plant operations and applying best practices in O&M. He cautioned that one could skip cavitation repairs on a unit as a way to reduce costs, but next time it would cost even more. So you have to pick the right time to do things.

Howard Schwartz then asked if there is a least cost, best output program underway? Mike Alder answer that that is exactly what the goal is of the Integrated Business Management Process the three Federal agencies are working together under.

Revenue Enhancements

Scott Coe, Acting VP for Generation Supply joined the group at this point and began a presentation regarding revenue enhancement opportunities in FY 2004-05 related to the generation system. He referred the group back to page 11, and briefly described each of the opportunities listed.

First is summer spill, and Scott noted that the decision process is underway, and if the proposed program is adopted, the benefits would range from $20 to $31 million, depending on the price one assumes that the additional power would be sold for. He noted that he hopes that the Federal agencies BPA would get a final proposal out during the week of June 21st. NOAA should follow that with a findings memo by the end of June, and then the Corps would publish a Record of Decision in early July.

Scott went on to report that there's been little progress with the 1 percent efficiency effort, largely due to the low water this year, which has hampered our ability to try this approach.

Additional FCRPS operational flexibilities refers to opportunities created by closer coordination between BPA and the Water Management staff at the Corps. The two groups have worked to clarify roles and responsibilities, which has resulted in improved coordination and improved BPA's ability to move water through the system at highest value times. An example is some recent discussions over flood control at Grand Coulee and Dworshak.

Ralph Cavanagh asked if BPA were to hold more water in storage, is it true that there would be some incremental revenue from that action?

Scott Coe answered maybe, and pointed out that it depends on when that water moves through the system. The most it would be would be about $1 million. Ralph Cavanagh opined that such monies should be counted toward the group's target.

Scott Coe said that these things have just happened within the last 7 days, and that we'd try and assess the size of any revenue enhancement and add it to the table.

Paul Norman reminded the group of the philosophy that is guiding this group regarding revenue enhancements related to net secondary revenues. That is, that if BPA were to take incremental actions not anticipated last August that we would otherwise not take, we would count that increment – even though this is in the otherwise excluded category of net secondary revenues.

Scott Coe continued with a discussion of Non-treaty Storage in the Canadian reservoirs. He told the group that we are out of the time period for this year for reaching an agreement, so there is no new agreement. BPA decided to end the negotiations rather than agree to what we thought would be a bad deal in the long run. And, the incremental benefit for this year, being a pretty low water year, is small.   Without a new agreement, non-treaty storage water comes out in June rather than later.

Scott Coe turned to the last category of General System Operations. He noted that this is a bit of a catch-all that is trying to capture the incremental value of using existing tools better and more often. In FY 2005, there are two major software development projects to get up and going. They are Columbia Vista, which is a water management program, and NRTO, which is a system optimization program.

Paul Norman told the group that the benefits of these two software programs are included in the August 28, 2003, base case, so there is no incremental revenue from these programs for Sounding Board purposes.

Steve Eldrige asked if there are any new capital investments that would add generation, such as connected to the removable spillway weirs (RSWs). Mike responded that we're looking at opportunities at RSWs across the system as part of the Columbia River Fish Mitigation program that Congress appropriates funding for. They cost about $60 million apiece, and there's only so much work you can do on the system at a time. So it's not a likely opportunity.

Paul Norman explained that BPA and its Federal partners have created a $1 billion capital investment program very carefully and we don't feel that we've left big items out due to lack of capital.

Steve Oliver joined the group and went through the additional revenue enhancement opportunities from Ancillary and Reserve Services and Renewable Energy. He noted that there has been no change for FY 04-05 in the expectations regarding Ancillary and Reserve Services. TBL is still purchasing less than expected from PBL as customers continue to self-supply or purchase elsewhere. BPA is still looking at sales in adjacent control areas and we think there is significant potential in the long run because hydro systems have a natural advantage for this kind of service.

John Saven asked how much of the Federal system is available for selling into the reserve and ancillary service market?

Steve Oliver answered that there are lots of areas where the hydro system is used, such as reactive power, re-dispatch for reliability, and network rights – all with little compensation. For reserve services, there is a requirement that hydro maintain 5 percent and thermal maintain 7 percent for reserves and AGC support. He said that there are fairly substantial amounts.

Moving on to the opportunities for selling renewable energy into the California market, as outlined on page 12, Steve Oliver explained to the group that basically nothing has changed since the last presentation. BPA has a very green system – the largest non-carbon emitting system in the world. Furthermore, BPA buys one-third of the installed wind capacity in the region and we'd like to see more developed because the FCRPS works very well with wind.

In California, the new Resource Portfolio Standards require that utilities have a certain amount of renewable energy in their portfolios by 2010 – which would amount to about 300 aMW in 2010.

Steve Oliver continued that BPA has been selling nearly all of its green tags, and California is a good market for these, but there has not been much of an increase lately because the green tag market is flooded and prices are down. Our tags do not command a very high price.

Ralph Cavanagh stated, that based on the small group discussion that he convened back in April, they were not suggesting that BPA sell more green tags where the opportunity to reduce pollution is separated from the actual energy. For the RPS, California will require that the whole story be told regarding where the energy is generated and how it gets from the source to the customer. Ralph said that he believes that BPA has a great opportunity to integrate wind with the hydro system and to sell system energy to California as wind energy that has been stored in the hydro system and taken back out to sell. This would have much higher value in California than just tags.

Ralph said that this approach takes advantage of a great victory in that California can buy renewable from anywhere on the West Coast – not just in California. He says that environmental groups will support an assertion that wind integrated into the federal hydro system would meet the RPS standards.

Deb Malin responded that BPA is limited in its ability to sell a wind/ surplus hydro product to California because it does not have a rate schedule under which to sell such a product. All we have is surplus power and the FPS rate schedule for selling that surplus power.

Ralph Cavanagh pointed out that BPA sells about 1000 aMW per year to California on the secondary market and he maintains that BPA could label about 200 aMW of that as wind and sell it as RPS-compliant. Debra responded that that might work, but regardless, BPA cannot sell a wind product until it has a rate case to establish a rate at which to sell that product.

Ralph Cavanagh said he understood, but said that it would be prudent to check with the California Energy Commission (CEC) first in order to understand their position.

Steve Oliver reminded the group that BPA's goal is to encourage the development of new renewable resources. BPA cannot prove that certain wind-generated electrons are delivered to California because the electrons go where the laws of physics take them. There are many legal issues that need to be worked out regarding preference, recall rights etc in long term contracts if the wind power is Federalized. Also, transmission isn't always available and it would be difficult to use it to market additional power. If it were labeled surplus power, then BPA wouldn't need incremental transmission to get it to California.

Ralph Cavanagh proposed that the group should identify this as a promising area, if the group would support such a statement. The proposal being that BPA could develop wind, label the hydro and meet the RPS standards. He continued that the nice thing about this proposal is that there would be a wind-linked secondary sale that could be sold at a premium and would be the most cost-effective RPS resource available.

Steve Oliver noted that the current wind inventory is encumbered to augmentation for meeting the loads of public utility customers in the PNW. Existing EPP contracts encumber all of the existing inventory of renewables. This means that for now, green tags are the better approach.

Steve Oliver commented to the group that Ralph Cavanagh has a promising idea, and that BPA would continue to talk more and work on it. The presentation that was handed out to the group would be revised to reflect the discussion, particularly removing the statement that the RPS standards result in limited marketing opportunities for BPA in California.

John Saven said that he also agrees that this is a solid proposal, and that it needs to be figured into the balance of the group's report to BPA. He is however, concerned about potentially large costs and would like more information on that. He is also wondering if this issue is larger than the impact of irrigation.

Paul Norman closed the meeting at this point and thanked everyone for joining the group today. He concluded that today's efforts had resulted in recognition of an additional $4 to $5 million in savings--$2 million from Reclamation and an additional $2 to $3 million from additional revenue enhancements.