

Bonneville Power Administration Power Function Review Workshop

January 25, 2005

**BPA Rates Hearing Room, Portland, Oregon
Approximate Attendance: 55; 20 by phone**

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

Opening Remarks

Paul Norman (BPA) welcomed participants to the Power Function Review (PFR) workshop and introduced Michelle Manary (BPA), project manager for the PFR. This is the start of an extensive public review of costs that will go into the 2007-2009 rate proposal, he said. BPA had a large rate increase in 2002, and the rate level starting in 2007 is of great interest to customers who pay the bills, as well as to those involved with BPA's public purposes, Norman said. In the PFR process, we are committed to talking to you about the costs that go into our rates and taking your input, he said. We will spend about four months sharing information, and we will look to you for ideas about how to keep costs as low as they can be and still meet our agency mission, Norman stated.

There are three tracks in this review, he continued: technical, policy, and regional public meetings. For the policy meetings, we have invited 35 management-level people to be committed participants, and we will hold those sessions about a week after the technical group meetings, Norman explained. The regional meetings in April will be held at various locations to give the public an opportunity to make input, he indicated.

The PFR will conclude at the end of April, after which BPA will make decisions about the costs that will go into the 2007-2009 rate proposal, Norman said. The 7(i) rate proposal will come out around September, he said.

Today, we will provide a "high-level flyover" of BPA's cost information, Norman went on. We also want to collect questions you have about the cost issues, so we can have productive discussions in later workshops that are sure to include what you want to know, he said. We also want your comments about the process and how we can be most responsive, Norman added.

Power Function Review: Opening Workshop Handout

P. 5: According to Norman, the desired PFR outcome is that "power rates reflect the lowest practical costs consistent with meeting BPA's objectives." We see that as the main goal of this effort, he said. Norman listed the following as what BPA would like to hear from participants when the PFR concludes: staff was very responsive to my information requests; staff was interested in my input and sincerely tried to respond to it; staff was clear about how my input would be used in making decisions; I understand the

costs going into the BPA power rates and the reasons behind them; and BPA and its partners are very committed to making costs as low as they can reasonably be while accomplishing the agency's objectives. We are going to be asking you these questions, and we will measure our success based on your response, he added.

P. 6: Norman went over a list of major program areas that make up the bulk of BPA's power costs, from the largest of the nine, federal and non-federal debt service, to the smallest. We will talk about all of the items on the list; for some, the decision about the level of costs to include in the rate case will be made in the PFR, and for others it will not, he explained. We have indicated in parenthesis which decisions will be made in the PFR, Norman indicated.

P. 7: We've listed the costs that go into our rates, but there are other drivers as well, he stated. Norman listed the other drivers as: loads and resources; revenue credits, including secondary sales; reserve levels; rate design; and rate level. These items will be at issue in the rate case, but they are not topics for discussion in this process, he clarified.

P. 9: Norman explained "a simple equation" for calculating BPA rates:

$$\frac{\text{Costs} - \text{Credits} + \text{Risk}}{\text{Loads}} = \text{Rate}$$

The focus of the PFR is costs, the first element in the equation and the biggest driver, he said. But, as we said, it is not the only driver, Norman added.

You will want to know about the trends with our costs, so in the PFR, we will be looking at what has occurred over 12 years, he explained. Because of changes in our accounting systems, however, it may be hard to compare things exactly, Norman said. We'll do our best to make appropriate comparisons and to make things clear, he said.

P. 10: Norman moved on to a bar graph of BPA's actual and forecasted "nominal" power rates from fiscal year (FY) 1996 to 2006. In the 2002-2006 period, rates ranged from \$30 per megawatt hour (MWh) to \$32.7 per MWh, according to the graph. We are working on the bars for the 2007-2009 period and should have them soon, he said. In response to a question, BPA staff clarified that the rates on the graph do not include transmission, but power only.

The Record of Decision (ROD) from the Regional Dialogue hasn't yet come out, but can we assume you are not talking about tiered rates now? Steve Weiss (NWEC) asked. We will have the ROD out any day, Norman replied. Yes, you are safe in assuming we are not talking about tiered rates, he said.

P. 11-12: Changes in FY07-09 Credits and Loads.

This page lists drivers besides costs, including secondary revenues, revenue credits, and loads, that impact BPA rates, Manary explained. She said secondary revenues will be a major driver of rates in FY07-09; natural gas prices are expected to decline relative to today's market; less surplus is expected; and BPA needs to refill non-Treaty storage.

Norman pointed out that while market prices are forecast to be higher than in previous rate periods, actual revenues are expected to be about the same. Steve Oliver (BPA) explained the difficulty of comparing secondary revenues from past periods because of the Slice contracts. We end up with “apples and oranges” – it gets complicated and “would take another workshop to explain,” he indicated.

Norman reported that due to low water years, BPA has exhausted its non-Treaty storage rights with Canada, and in time, will have to refill Canadian storage. “We are looking at the need to put water in Canada,” and in FY07-09, it could be as much as 100 aMW a year, Norman said.

With regard to revenue credits, Manary said all the Fish Cost Contingency Fund (FCCF) is gone, and annual revenues from out-of-region contracts are down to roughly \$200 million in FY07-09. BPA staff said out-of-region contracts, the largest of which was with SCE, had been terminated or the obligations diminished due to the drought in 2001. Participants asked BPA to provide an update on the exact status of out-of-region contracts.

FY07-09 loads are forecast to be about the same as actuals in FY02-06, Manary said. She explained a table listing the loads. Dave Hoff (PSE) suggested it would be helpful to have the out-of-region contract information and secondary revenues displayed together with loads to get “the whole picture.”

Hydro generation has been changing over the last 10 years due to fish measures and efficiency projects, Manary pointed out. With regard to thermal generation, she said the Columbia Generating Station (CGS) has been generating at a level higher than forecast and is expected to stay higher in FY07-09.

How will the summer spill issue be treated in the rate case? Linc Wolverson (ICNU) asked. We have another track in the PFR on the topic of fish costs in rates, Norman responded. The spill issue will be decided outside the rate case, he said. Will the increased expenditures on maintenance in the hydro system show up in the unit availability forecast for the rate case? Jim Litchfield (LCG, Inc.) asked. We are investing a lot in the hydro system, Norman responded. With the investments, we have stopped the decline of facilities, and with efficiency projects, we are extracting more generation from the water that goes through turbines, he stated. These will be reflected in our rate case estimates, Norman said.

P. 13: Changes in FY07-09 Risk Profile.

The issues on this page relate to risk and are very important for the rate case, Norman said. We will talk about these a lot, he said.

Our cash reserves are down a bit from the FY02-06 rate period, Manary said. The expected value of the agency reserves at the start of the rate period is \$350 million, based on estimates from the August 2004 Safety-Net Cost Recovery Adjustment Clause (SN CRAC) workshop, she said.

Manary listed the risks as follows: FCCF credit (no longer available to help in low-water years); minimum liquidity reserve level (level of working capital needed is probably larger); market volatility (greater variability than before in secondary revenues); new/modified risk (IOU benefit expense of between \$123 million and \$323 million annually); and the Treasury payment probability (TPP) standard (return to previous three-year target of 92.6 percent from 86 percent in the current rate period).

Lon Peters (PGP) asked for a breakdown of the TBL and PBL reserves. From my recollection of the TBL rate case, this PBL figure looks low, he said. Paul Murphy (MBLLP) pointed out that market price poses a risk in terms of secondary revenues and the IOU benefit expense. He noted that the market price should be consistent in both analyses.

P. 15-16: Expenses in Nominal Dollars FY97-09; Expenses in Real 2004 Dollars. Manary explained a bar graph that presented BPA's costs from the FY97-01 rate case and '97-01 average actuals, the FY02-06 base rates and '02-06 average actuals, and the FY07-09 PFR preliminary forecast.

Hoff pointed out the disparity between rates and costs. It looks like your rates have gone up 50 percent, but your costs are up just 10 percent, he said. It's hard to make leaps like that from these numbers, since other factors, like swings in secondary revenues and FCCF credits, play a role, Norman responded.

What was the management direction in undertaking the PFR? Kevin Clark (Seattle) asked. Our direction was to establish the lowest level of cost possible and still meet our goals, Norman replied. We are testing this with you and asking whether we are there yet – are the costs as low as they can be, he said.

P. 17: Expense Breakout in Nominal Dollars.

Manary explained a graph with a breakout that compared average expenses for FY97-01, FY02-06, and FY07-09. Hoff pointed out that the ranges in the expense categories for FY07-09 are inconsistent. The comparison “mixes apples and oranges” since you used the maximum figure for the residential exchange, but not for other categories, like power purchases, he commented.

Will the residential exchange be an issue in the rate case? Wolverton asked. We are doing a paper that explains and discusses the exchange, and we will post it on the web, Manary responded.

P. 18: Expense Changes in Nominal Dollars from FY97-09.

Manary explained two tables that capture changes in expense levels for the two rate periods, FY97-01 and FY02-06, and the forecast for FY07-09.

P. 21: Components of the Forecasted Expenses in FY07-09.

Manary explained a bar graph displaying the major categories of expenses and the percent of total costs that each represents.

P. 22: FY07-09 Power Expenses, Long-Term Generating Projects.

These are contracted power purchases and most have offsetting revenues associated with them, Manary explained. The FY07-09 annual average expense for these projects is \$25 million, she said.

Is there a way to get a list of the offsets to the generating projects so we can tell if they are cost effective? Weiss asked. Yes, we could provide the MW and KWh sales, Manary said. There was also a request for this information relative to renewables and conservation.

P. 23: FY07-09 Power Expenses, Renewables.

There are also revenue offsets for the renewable purchases, Manary pointed out. The jump in annual expenses from FY02-06 to FY07-09 (\$22 million to \$56 million) assumes purchase of power from Calpine's geothermal project, she said.

P. 24: FY07-09 Power Expenses: Conservation.

Manary explained the table of expenses associated with conservation purchases and the components of the \$71 million annual expense projected for FY07-09. Over half is associated with the proposed conservation rate credit, she said. Clark said the process to resolve the rate credit isn't going well. I have gotten a report from the conservation collaborative, and "I'm more sanguine than you" about its prospects for success, Norman said. The participants want more time to work on the issues and are waiting until the Northwest Power and Conservation Council puts out its list of cost-effective measures, he said. Where will a decision be made? Clark asked. We will decide in May, and our decision will be informed by the PFR workshops and the collaborative, Norman replied.

P. 26: FY07-09 Power Expenses: Internal Operations Charged to Power Rates.

Most of this expense is personnel, Manary explained. The \$116 million annual average, up from \$107 million in FY02-06, is driven primarily by "people costs," she said. Total PBL staff is declining, Norman pointed out. Are there increases in the corporate FTE that offset the decrease in PBL staff? a participant asked. It's difficult to get at the corporate FTE dedicated to PBL versus TBL, Norman said. But we can share the trends in those numbers at the workshops, he offered.

How do you allocate costs of shared services between PBL and TBL? asked Lyn Williams (PGE). We can provide that information at the workshop too, Norman said.

P. 27: FY07-09 Power Expenses: Fish and Wildlife (F&W) Direct Program Only.

Manary pointed out that a series of workshops on F&W will address the issues related to F&W expenses. When are the opportunities to provide input on F&W costs? Bill Drummond (WMG&T) asked. "The main action" on this topic will be in Greg Delwiche's workshops, Norman responded.

P. 28: FY07-09 Power Expenses: Transmission Purchases & Reserve/Ancillary Services.

The \$259 million in FY97-01 was driven by the '01 drought, Manary noted. The \$189 million estimated annually for FY07-09 will swing from year to year, she said. What is happening with the Corps and Reclamation costs to provide ancillary services for TBL? Clark asked. These are not costs that should be covered by PBL, he said. Oliver responded that the issue would be taken up in the rate case. There will be “a placeholder” in the rate proposal, and a calculation will be made in the rate case, he said.

P. 29: FY07-09 Power Expenses: Payments to IOU Residential and Small Farm Consumers of IOUs.

We will be doing a background paper on this – how the benefit was reached, the methodology, and so forth, Manary reiterated.

P. 31: FY07-09 Power Expenses: Corps and Reclamation O&M for Hydro Projects.

These costs have gone up, with an estimate of \$242 million annually in FY07-09, Manary said. There are increased costs associated with things like security and the Biological Opinion, she said. The Corps and Reclamation will be here to talk to you in more detail at a workshop, Manary indicated. We will touch on Corps and Reclamation fish costs, but the details will be in the F&W workshops, she clarified.

How many employees are there at the Corps and Reclamation facilities? a participant asked. We will provide that information, BPA staff said. Will there be a discussion of recent investments in the hydro system and what they have provided in terms of unit availability? Peters asked. Yes, BPA staff responded.

P. 33: FY07-09 Power Expenses: CGS O&M for Nuclear Plant.

The increase in the FY07-09 period reflects two refueling years in a three-year rate period versus two refueling year in the previous 5-year rate period, Norman pointed out. Since refueling years are higher cost, this biases the 2007-9 average up, he said. Murphy said he would like to see the incremental costs associated with refueling year and Norman said BPA would ask Energy Northwest (ENW) to provide that information.

During the Sounding Board, BPA and ENW had differing views about the costs and benchmarks for the nuclear operation, according to Howard Schwartz (State of Washington). Will we get both points of view on that? he asked. I'm not sure there is much of a gap anymore, given the ENW cost management effort that is not yet reflected in the numbers, Norman responded. I'd like to know about how that gap was narrowed and find out if BPA is still thinking there could be some economies of scale if ENW were to become part of a larger organization, Schwartz said. We'll pick up those topics, Norman responded.

P. 34: FY07-09 Power Expenses: Net Interest, Depreciation, and Amortization.

One of the risks with this expense is the change in plant-in-service schedule for the Corps' Columbia River Fish Mitigation project, Peters said. What is that project? he asked. Val Lefler (BPA) explained that the project is made up of fish mitigation

facilities, like collectors and removable spillway weirs, at Corps dams. The intent was that once the project was complete, the costs would go into plant in service, she explained. But there have been delays, and there is uncertainty about when the costs will become plant in service, Lefler said. Is there a choice to put part of the project into service instead of waiting for the entire amount? Clark asked. There has been discussion of that, Lefler responded. She said the issue would come up at the Corps/Reclamation workshop.

Hoff asked BPA to provide more information about how increased capital investment would impact costs.

P. 35: FY07-09 Power Expenses: Non-Federal Debt Service.

The \$566 million annually reflected here is associated with non-operating and operating generation projects, Manary said.

P. 36: FY07-09 Power Expenses: Impacts of Debt Management Actions.

The actions BPA takes with respect to capital affect PBL costs, and this chart indicates the upward or downward effect of various actions, Manary explained.

P. 37: BPA's Total F&W Program.

This is the total program cost versus the direct F&W program expenses displayed earlier, Manary said. The total cost is \$691.6 million annually, she said, noting that at the F&W workshops, there will be discussions of the entire program.

Once again, I would ask you to break out the expenses associated with irrigation, municipal water withdrawals, navigation, and other river uses, Weiss requested. We've asked for this information "about 50 times," and "our request keeps being ignored," he contended.

We have provided this information relative to irrigation in the Sounding Board process last year and it is posted on the web, so I don't think we have been ignoring the request, Norman responded. This figure on the expenditures for F&W becomes very public – it gets into the press and utilities use it, Weiss said, adding that costs of other uses of the hydro system should get equal attention. "The power system does not own the river," he stated.

We need to see the costs of all non-power constraints to the hydro system, as well as any credits associated with them, Ed Sheets (Consultant to Yakama Nation) requested.

This table is not titled accurately, Geoff Carr (NRU) pointed out. These are just BPA costs – this doesn't include Grant PUD, PGE, and many others in the region that spend money on F&W programs, he said. I'd suggest you re-title it as just BPA costs, Carr recommended.

We need to understand the difference between the costs to operations and the use of direct program funds for on-the-ground measures, Litchfield said. He also noted that the table doesn't reflect costs of subbasin planning.

In the Sounding Board, BPA did some good work to get at the costs of irrigation, Schwartz pointed out. Some follow-up on the irrigation costs and revenues would be helpful, he stated.

If you could associate total F&W expenditures with fish benefits, that would be useful too, Murphy said.

It would be helpful to know at the end of the workshop, how the agency will go from the PFR to a rate proposal, John Saven (NRU) stated. It would be useful to know what the procedure will be and what our rights are, he said. How you get from here to the proposal is important for the credibility of the agency, Saven said.

P. 39: Planned Power Function Capital Expenditures for FY07-09.
This table breaks down the capital expenditures into categories, including Corps and Reclamation, F&W, and conservation, Manary said.

I'd like to see a list with specific plant-in-service information, including assumptions and dates, for each year, Clark said.

Also, it would be helpful to see a list of the capital investments deferred from the past that may be coming up again, Jeff Nelson (SUB) requested. It would be helpful to know what was submitted to OMB, Williams added.

Why isn't conservation expensed instead of capitalized? Weiss asked. I was of the impression that was going to happen, he said. This reflects the capitalization for ConAug through 2006, BPA staff responded. There are no decisions yet – these are assumptions, Norman clarified.

Could we revisit the decision on the amortization period (currently declining through September 2011) for ConAug? Clark asked. Yes, Norman responded.

Power Function Review Schedule

Norman called attention to the schedule for the Technical Workshops and Management Discussion Groups. What is the management group and how will it function? Sheets asked. The group is made up of management-level people; we will be making presentations and getting their input, Norman replied. It is not a decision group – we want to have back and forth about whether what we have done is all that we can do to keep expenses as low as possible, he said. We'll also provide an opportunity for written comments, and we will have a wrap-up session April 27 with Steve Wright, Norman stated.

This is similar to the Sounding Board, which had 20 people participating, he continued. But there will be more participants than the Sounding Board. Also, though BPA has invited 35 specific members, meetings will be open and anyone can attend, but we want to keep the discussions at the managerial and policy level, Norman said. He also said that the Management meetings were purposefully scheduled to come after technical meetings. He said BPA hopes that at least some Management Group members will be briefed by technical staff before the meetings, so that the Management Group meetings can be more meaty. He noted that most of the management-level meetings conflict with Northwest Power and Conservation Council meetings. If there are going to be schedule changes, could you let us know as soon as possible, Dick Helgeson (EWEB) requested. [The revised schedule has been communicated]

Where should we direct data requests? a participant asked. Direct them to me, Manary said: mlmanary@bpa.gov. We will post the questions and answers on the web site, she said. We will do our best to be responsive, Norman added.

Will you provide materials ahead of the meetings so we have a chance to review them? a participant asked. Yes, we will try to post the information at least two days before the meetings, Manary said. That generally means Friday before the Tuesday meetings, she said. Participants said it would be helpful to have more time, a week, if possible. She said BPA will do its best to get material out as early as possible. If you provide us your e-mail, we will notify you of the postings we make to the web site, Manary offered.

It's a very short turn-around between the technical workshop on risk and the management discussion, Wolverton pointed out. Clark said meetings that start at 9 a.m. work better for those who have to travel to Portland. If the meetings start at 8:30 a.m., we invariably have to come in the night before, he said. [Meeting start times have been moved to 9 a.m.]

This is a good process that you have put together, "but it is fragmented," Clark said. What are we going to do with all of this information – will there be a wrap up? he asked. We can add a summary meeting if you want, Manary said. The point is for us to hear from you – we want it to be a collaborative process, she stated.

Why did you reject the two-year rate case? Wolverton asked. There isn't an official decision yet, but this process is probably a good forecast of what the ROD on the Regional Dialogue will say, Norman responded. With three-year rates, we are setting ourselves up to have to do rates at the same time we prepare new contracts for customers who want one, he noted. But a three-year rate allows us "to sync up" with the TBL rate period, Norman said. Under some scenarios the three-year period also allows lower rates than the two-year period, he said. The ROD will go into detail about the decision, he added.

In wrapping up the meeting, Norman said he was aware of the concern Saven raised and is sensitive to the dynamics. We can't lay out a PFR road map in its entirety, but we tried to create clarity in today's packet, and we'll try to provide more clarity as we go along,

he stated. Norman asked participants to fill out the feedback questionnaire to help PBL shape the process to work as productively as possible.

The meeting adjourned at 11 a.m. Next meeting: February 1, 2005.

Follow-up questions and information requests

Responses to questions and requests for information received throughout this process will be posted on the Power Function Review Web site on an ongoing basis. The Web address is www.bpa.gov/power/review.

1. Provide an update on the exact status of out-of-region contacts in relation to annual revenues from these contracts being down. In addition, it would be helpful to have the out-of-region contact information displayed with information on secondary revenues for a complete picture.
2. Provide a breakdown of the TBL and PBL reserves.
3. Provide a list of offsets to the generating projects and for conservation and renewables.
4. PBL FTE has declined. Has there been an increase in Corporate FTE to offset this decline?
5. How do you allocate costs of shared services between TBL and PBL?
6. What are the opportunities to provide input on Fish & Wildlife?
7. How many employees are employed at the Corps and Reclamation facilities?
8. The gap has narrowed between BPA and ENW on their views regarding costs and benchmarks for nuclear operation. How was that gap narrowed and does BPA still think there could be economies of scale if ENW were to be part of a larger organization?
9. Provide more information about how increased capital investment would impact costs.
10. Break out the expense associated with irrigation, municipal water withdrawals, navigation and other river uses.
11. Provide a list of the costs of all non-power constraints to the hydro system, as well as credits associated with them.
12. Explain the difference between costs to operations and the used of direct program funds for on the ground measures.
13. Provide an association of total fish and wildlife expenditures with fish benefits.
14. How will the agency go from the PFR to the rate proposal? What are our rights? How you get from here to the proposal is important to the agency's credibility.
15. Provide a list of plant-in-service information, including assumptions and dates for each year.
16. Provide information on capital investments that were deferred and may come up again.
17. What was sent to OMB?