

**Bonneville Power Administration**  
**Power Function Review Regional Meeting**  
**April 26, 2005**

**Airport Ramada Inn, Spokane, Washington**  
**Approximate Attendance: 15**

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

Introduction

Paul Norman (BPA) opened the meeting, explaining that it was the fifth of five regional public meetings for the Power Function Review (PFR). Since January, we have been holding meetings and talking about our costs for purposes of setting BPA's power rates, he said. The question for us in the PFR is, how low can all of the costs that go into rates be, consistent with our mission, Norman explained. We have been working on that question internally, and we want to hear from others with an interest in our costs, he said.

We have already made substantial progress in bringing costs down for the next rate period, and on Monday, May 2, we will put out a draft letter that says, these are the costs we intend to take into the rate case, Norman continued. We will take comment on that draft thru May 20 when the PFR comment period closes, and will then issue a final decision in mid June on what the costs will be, going into the rate case, he said.

Norman went over a 10-year BPA rate history, noting that rates jumped about 50 percent in 2002, and "then came down a little." But generally, they have stayed about the same, he said. Like all of our customers, we would like to see rates going down, according to Norman. The question of costs is not decided in the rate case itself – we make decisions about our costs outside the rate case process, he explained.

Norman described the major elements that go into ratemaking, pointing out that credits and risk are decided in the rate case. We have made the discussion of risk part of the PFR, but we will take it up again in the rate case, he said, where a decision will be made. Loads, which we don't expect to be a big issue this time, will also be part of the rate case, Norman said. The equation on the bottom of the Rates Overview page in the handout is the basic formula for how we set our rate, he summed up.

Michelle Manary (BPA) explained a chart of BPA's basic costs, which are forecast to be \$2.5 billion to \$2.7 billion in the next rate period. The items in this stack tie directly to the line items on BPA's financial statement, she said.

We have heard from participants in the PFR that it is hard to see only one component of our rates – costs – and not have the whole picture to consider, Manary said. In order to provide a bigger picture, we took the \$2.5 billion to \$2.7 billion in costs and subtracted an estimate of our secondary sales revenue, she explained. We came up with a PF rate of \$28 per megawatt, Manary said. But this is just "a snapshot" of our costs, loads, and

revenues – it was a look at “how big is the bread basket” when we talk about our rate, she added.

If we consider just a traditional flat rate, we would have to add about \$530 million to our costs in order to cover risk, Manary continued. That would put us at a rate of about \$36 per MW, she said. But so much depends on the rate structure – we can bring that number down considerably by having cost adjustment mechanisms in our rate, Manary explained. There will be a lot more discussion in the rate case about how to bring the rate figure down, she said, adding that the forecasts of costs, loads, and revenues will be updated as part of the rate case.

Another question we hear is, since BPA will no longer have the augmentation costs it now has, why aren't rates coming down in the next rate period to their 1997-2001 level, she said. “The landscape has changed a lot since then,” and we are doing a lot more for our customers than we were before, Manary said. She listed IOU benefits, fish and wildlife (F&W) spending, more public utility load, increased O&M and debt service, and the conservation and renewables discount as items that are keeping costs higher. We had a decrease in aluminum load and there is a higher market price for our secondary sales, but these offsets are far less than the increase in costs, Manary said.

Could you expand on the \$120 million increase in F&W costs, Joe Peone (Colville Tribes) requested. The F&W costs cover things like the facilities at the dams for fish passage, and we are repaying the Congressional appropriations that financed them, Manary said. In addition, the Direct (Integrated) F&W Program costs have risen \$40 million per year, she said. The debt service obligations have also risen – as we borrow and add debt, the layers of costs keep stacking up, Manary explained.

Our overall costs are coming down, but not by as much as the augmentation costs that we will no longer have, she continued. The increase in IOU residential exchange benefits, higher public utility load, higher O&M and debt costs, and the expiration of a long-term surplus sale, which brought in more revenue than an equivalent PF sale, account for the greatest share of the cost increases, Manary indicated. Our total costs are going down, but not to 1997-2001 levels, she said.

A key thing for our rates in the next rate period is risk, Manary said. We are facing volatile risk, and that will be a big topic in the rate case, she said.

We listed the things we have heard so far in the PFR about our costs – we've had comments about all areas of the program, Manary said. We have also kept a scorecard going through the PFR that documents the ideas we've heard and the dollar impacts they would have, she explained. One example of those comments is in the area of renewables, Manary pointed out. The start date on the Fourmile Hill geothermal project is slipping, so we decided to assume that cost would be pushed out into the future beyond 2007, she said. We are in arbitration over the plant, so its future is uncertain, Manary added.

We will probably know the outcome of the arbitration before final rates are set, but not before we make our initial rate proposal, Norman elaborated.

We also heard through various cost-control forums that the Columbia Generation Station (CGS) costs were increasing too much, Manary said. As a result, the plant's owner, Energy Northwest, undertook a benchmarking exercise and determined that it could bring its costs down, she said. That number isn't final yet, but it's good enough that we will factor it into our rate case estimates, Manary explained.

Charlie Weber (Energy Industries) asked for an explanation of the suggestion about crediting the conservation that utilities do "on their own nickel." BPA has a conservation target to meet in the next rate period, and this suggestion is that if our utility customers spend money and achieve conservation, BPA should get credit toward meeting its target, Manary explained. The estimate of what that would save BPA is \$14 million, but the number is tentative since information about this has not been tracked well, she added.

We have not decided to do all of the things on the list, but they were suggested, Norman said. What we put out in our draft letter on Monday will be like the items in this list – they will be cost reductions we think we should incorporate when we set rates, he said.

Why is there so much increase in risk? W. Ron Baker (NCCAC) asked. The higher the market price of electricity, the bigger swings we see in our revenues, Manary explained. When you sell a huge amount of power, like BPA does, the swings in inventory and price cause a wide variation in revenues, and that increases our risk, she said. Also, going into the next rate period, we forecast that we will have very little money in the bank, which means "very little risk cushion," Manary said. The computer model we use says we have to have more money in rates to cover risk, she said.

Will BPA absorb increases in its F&W overhead? Stacy Horton (NPCC) asked. We have heard that suggestion, and it is still under discussion, Norman responded. We are looking at it, he said.

Could you explain the costs associated with the Snake River fall chinook transportation study? Fred Rettenmund (Inland Power) asked. The Biological Opinion calls for testing the effects of barging the fish versus using spill at the collector projects to help them migrate in-river, Manary responded. We saw that this test was not included in our original cost runs, so we added it in, she said.

Studies are now showing that some fish aren't migrating out of the reservoirs in the first year – they are going out as older fish, Peone pointed out. Does this impact the study? he asked. It does complicate the study and makes it harder to determine the actual effects, Norman responded.

What are the suggestions on the Integrated F&W Program level? Peone asked. We are hearing a wide variety of comments, some suggesting more and some less money, Manary said.

Baker asked about the Spokane settlement. The government made a settlement with the Colville Tribes for the impact of Grand Coulee, and the Spokane Tribe filed a similar lawsuit, Norman responded. Since we don't have a settlement yet, it was suggested we remove from costs any estimate of the associated payment, he said. Since we don't know what will happen and so far have no obligation, some think we should leave this figure out, Norman explained.

Stephen Boorman (City of Bonners Ferry) asked about the operations costs for F&W, and Manary pointed to p. A-37 in the handout and the numbers on the chart.

Is BPA buying wind power? Baker asked. Yes, Manary said, and referred to p. A-22 in the handout, which details BPA's renewables purchases.

### Public Comments

**Randy Gregg, Benton County PUD**, complimented BPA on its management of the PFR. He told BPA that a 27-mill rate is crucial for the economy – BPA rates are a big part of the economy here, he said. I would encourage you to use “conditional budgeting,” in which you would have a basic budget and a list of things you could do if revenues are better than expected, Gregg said.

He urged BPA to allow utility-sponsored and naturally occurring conservation to count against the BPA target. I'm skeptical of the Council targets for conservation – they are too high, Gregg added. BPA should proceed with terminating Fourmile Hill, he said.

Gregg called the overhead expense on the corporate side of BPA “staggering.” Major reductions are needed in areas under the corporate function, including IT, where at least \$10 million could be cut, he said. Corporate costs have taken a huge jump from 2001 levels and have gone too high, Gregg stated. He recommended that costs of BPA's industry restructuring effort should be reallocated, with 10 percent going to PBL and the rest to TBL, which receives the primary value. Greg suggested cutting back on the Technology Confirmation/Information budget and increasing funds if revenues improve.

BPA should amortize ConAug measures and Integrated F&W Program measures over their useful life, Gregg said, and should debt finance Energy Northwest capital and fuel costs. I'm encouraged by the reductions in CGS O&M and support the effort to seek a new operating license for the plant, he stated. The Corps of Engineers and Bureau of Reclamation costs are “tough ones,” Gregg said. These costs cover maintaining the hydro system, but it seems there could be more efficiency, he said. We'll depend on you to look for ways to improve efficiency there, Gregg added.

The \$1.6 billion in Columbia River Fish Mitigation (CRFM) costs is “a shocker,” and I've got to believe there are efficiencies that could be found, he continued. With regard to the Lower Snake River Compensation Plan hatcheries, we'd recommend budgeting at the O&M-only level, as well as going with the low case budget for the Integrated F&W

Program, Gregg said. Put additional expense in the conditional category, he advised. Gregg recommended BPA work to delay or terminate the fall chinook transportation versus spill study. There has to be a smarter way to view this, he said.

As for risk, we're very concerned about the amount it could add to rates, Gregg stated. The reductions I've outlined would get you below 27 mills, he said. I'd urge you to look at the program cost risk separate from the hydro risk – "set a program budget and live with it," Gregg advised. He suggested minimal planned net revenue for risk to cover the hydro market price risk. If we want to get to the 27-mill rate, we have to share the risk, Gregg acknowledged. Benton PUD would favor some type of cost recovery adjustment clause (CRAC), he said. Gregg recommended the CRAC be based on "the way things turn out" – actuals rather than forecasts.

He also advised BPA to delay increasing its liquidity reserve; to use the agency's total reserves, not just PBL, in its modeling; and to keep the Treasury payment probability at 80 percent for the first year of the next rate period. And go out and get a line of credit, Gregg said. The goal is 27 mills, he wrapped up.

**Fred Rettenmund, Inland Power**, said the PFR has been a high-quality effort by BPA. PFR could be part of the cost-control package for customers, he added. About 90 percent of Inland's customers are residential, with some commercial and irrigation customers. Rettenmund said. The utility signed a presubscription contract and currently has a power rate of about 22 mills – there is a real sensitivity here about where rates will go, he said. The economy over here is fragile, and the impact of a rate increase would be very real, Rettenmund said. Fifty percent of the utility's costs are BPA power purchases, and that percent could go higher if rates increase by much, he pointed out.

With regard to conservation, Rettenmund said Inland likes the broad program structure with the rate credit and bilateral contracts, and "you have done the right thing" by lowering the costs to acquire conservation and aiming to get the megawatts for less. We are concerned about the measures that will be acceptable and whether they will be appropriate for our largely residential utility, he said. Conservation can put upward pressure on rates, and you could have customers seeing the increase without an opportunity to participate in programs, Rettenmund pointed out. That could be a problem, and it's a sensitivity we have, he added.

With regard to decrementing, we did not see the quality assessment that was needed, Rettenmund continued. "We saw lots of emotion," but not enough analysis – only BPA has the capability to do the analysis that is needed, and we would encourage you to do that, he said. Renewables are going in the right direction with the facilitation role, Rettenmund said, adding that Inland also questions continuing the Fourmile Hill project.

As for F&W costs, we are fully supportive of increasing fish returns, but we want the money spent in the best way possible, he went on. We have costs of \$692 million annually, and there must be a way to get more for what we are spending, Rettenmund said. He said the appointment of Greg Delwiche to head up F&W was a good move and

brings the right discipline to the area. The F&W expenditures represent “a complex, multiagency effort,” but since BPA pays the bills, there has to be more sense of ownership in what is going on, Rettenmund said. He advised BPA management to be more visible in decisions about F&W spending.

The \$1.6 billion CRFM project has been “a sleeper,” and it came as a surprise to many that \$300 million in studies was yet to be booked to BPA, Rettenmund said. You need more involvement with whoever is making the spending decisions so there won’t be surprises, he said. Rettenmund cited an April 2004 report from the Independent Scientific Review Panel, which faulted the CRFM for its lack of clear decision points at which the scientific value of its proposals could be evaluated. Since there is a significant amount of money – \$700 million to \$800 million – yet to be spent, there is an opportunity for some action to allow greater scientific review, he said.

Rettenmund praised the effort to shift F&W funds from research, monitoring, and evaluation to on-the-ground work, and he urged a fresh look at hatchery functions. He said BPA should revisit its depreciation and amortization schedules – Corps and Reclamation hatcheries are amortized over 50 years, while hatcheries funded through the Integrated F&W Program are amortized over 15 years. We’d ask you to take a fresh look at that, Rettenmund stated. He urged BPA to save money by diverting funds away from the “unnecessary” study of Snake River fall chinook transportation versus in-river migration.

For risk, we don’t favor the option of setting a really high rate, and we don’t favor BPA having no reserves, Rettenmund said. We are leaning toward some revenue for risk with a tightly crafted adjustment clause for the variation in hydro conditions and market prices, he wrapped up.

**Joe Peone, Colville Tribes**, described the Colville reservation and noted there are four utilities that serve power to the area. Three of those utilities rely on BPA, so your rate has a lot of impact on communities within the reservation, he stated. We have to make sound decisions on F&W spending, but we also have to oversee the resources wisely, Peone said. We understand about the need for efficiency in projects and having them pass scientific scrutiny – we do a lot of planning to make sure that is the case, he indicated, adding that implementation of subbasin plans is on the tribes’ mind.

People seemed to think that the CRACs in the last rate case were the result of increases in F&W spending, Peone said. That was not the case, and we urge you to be more transparent about where those costs are coming from if there are CRACs in the next rate case, he wrapped up.

There is a shortage of focus on the customers, **Stephen Boorman, City of Bonners Ferry**, said. Your rates have a big impact on our city – if BPA increases rates 10 percent, it means a 5 percent increase for our customers, he pointed out. Don’t forget about the end-use customers – we are working on their behalf, Boorman said.

We will be taking all of your comments and everything else we have heard in the PFR and putting together a proposal for our costs, Norman summarized. The proposal will be posted on our website Monday, May 2<sup>nd</sup>, he said.

The meeting adjourned at 6 p.m.