Subscription Options Process Public Meeting
Adding Flexibility for Meeting Treasury Payment Probability Obligations
August 21, 2000, 10:00 a.m. to 2:30 p.m.
Holiday Inn – Portland Airport, Portland, Oregon

BPA Administrator Judi Johansen welcomed people to the meeting and introduced facilitator Al Wright. She said BPA's schedule for making a decision on the Treasury Payment Probability (TPP) options is very short. We would like to conclude our inquiry "by the end of the week or so," Johansen stated.

The purpose of the meeting is for you to make input to BPA, Wright told the audience of over 100 people. BPA is working under a very tight time frame, and this is your opportunity – probably your only opportunity – for input on the decision that will be made, he said. Wright outlined the format of the meeting, noting that the staff presentations would be brief, followed by a chance for clarifying questions. We will then have the formal comments, he said, noting that 18 people had signed up to speak.

Overview of the Problem

Allen Burns, BPA, provided an overview of the problem that caused BPA to call the recent Subscription meetings. There has been "lots of angst in the past few months" that we could have a problem with rate stability, he explained. We took an honest look at the situation and realized we do not have the TPP we need to be in the 88 percent range, Burns said. The problem is due to high energy prices, he stated, adding that Portland General Electric (PGE) and Northwest Natural Gas have just announced retail rate hikes for the same reason.

In its rate case, BPA forecast it could buy energy for $28 per MWh over the five-year rate period, but the current forecast is $42 per MWh, Burns explained. In addition, BPA projects that its load will be up 1,200 MWa over rate case estimates, he said. Customers who had previously diversified their power supply or were planning to do so now intend to put that load on BPA, Burns continued. BPA thought its load would be under 7,000 MWa, but now it looks like it will be over 8,000 MWa, he said.

In this new set of circumstances, we would be purchasing significant amounts of energy at $42 instead of $28 per MWh, Burns continued. According to our analysis, the result would be $200 million more in annual costs than we anticipated, and over five years, that adds up to $1 billion, he said.

We went into the rate case with a good TPP, but now that has dropped from 88 percent to the mid-60s because of the new costs, Burns explained. We are trying to find a solution to get us back to the 88 percent range, he stated.

Questions:

What is this situation doing to the ratings on the WPPSS bonds? asked Al Canada of Grants Pass. The ratings on those bonds are good, and there is no indication that will change, Paul Norman, BPA, responded. Our problem is with the fiscal year beginning after September 30, 2001; our financials are fine now, Burns added.

Principles, Criteria, and TPP Options

Syd Berwager, BPA, outlined the four general Subscription principles and the six criteria BPA intends to adhere to in making a decision on the TPP options. The Subscription principles pertain to spreading the benefits of the Federal Columbia River Power System (FCRPS) widely in the region; avoiding rate increases; meeting fish and wildlife obligations; and developing conservation and renewable resources, he explained. The six criteria for a solution include: keep it simple; allow Subscription contract signing to proceed as soon as possible; avoid a revision of the overall Subscription strategy; avoid reallocation of Subscription power or a change in the balance; require limited or no revisions to the 2002 rate proposal before FERC and the Subscription contract prototypes; and provide a TPP in the range of 80 to 88 percent.

BPA has proposed two options for addressing the TPP, according to Berwager. Option 1 makes a change to the contracts; it would do nothing to rates now, but would allow BPA to modify the rates during the five-year term of the contracts, he explained. The contracts now say the rate cannot change, Berwager added. Option 1 is "a simple but dramatic contract change," he stated.

Option 2 would revise the rate proposal that is before FERC, Berwager continued. We would anticipate changes to two sections of the rate proposal, he said: revision to the Cost Recovery Adjustment Clause (CRAC); and corresponding changes in the Slice methodology and Slice contract.

Analysis of Options

Byrne Lovell, BPA, explained the BPA staff analysis of the options. A summary of the analysis was provided to the meeting participants in a handout. Within the analysis of Option 2, which would redesign the CRAC and make corresponding changes to the Slice methodology, staff evaluated several alternatives, he pointed out. There is a tradeoff between the threshold at which the CRAC triggers and the amount of increase in total dollars and mills per kwh that would be needed to reach an acceptable TPP, Lovell explained. In redesigning the CRAC, you could, for instance, have it trigger more often but with less impact on rates, he said. Another factor is whether CRAC triggers on actual audited revenues or on forecast revenues, Lovell stated. A CRAC triggered on forecasted revenues could go into effect much quicker, he noted.

Lovell described two other options, including: a "ratchet," under which rates could increase at some point for all of the remaining years of the rate period; and a five-year TPP trigger coupled with a dividend distribution clause. The last two options are in the idea stage and have not been modeled, he said.

Questions:

Kevin O'Meara, Public Power Council (PPC), asked about the effect of the CRAC redesign on debt optimization. Lovell explained that in the end, the redesign has the effect of lowering the TPP "a little," or 1 to 2 percent.

What market prices are assumed for wholesale power, and have you done any sensitivity runs with prices? Steve Loveland, Springfield Utility Board, asked. Lovell said BPA assumed $42 per MWh for the 2002-2006 period. Berwager pointed out that the handout provided at the TPP technical discussion August 9 included some sensitivity runs.

Paul Murphy, Direct Service Industrial customers (DSIs), asked about the column on the table that represents the frequency with which the CRAC would trigger under various assumptions. That is an annual number, Lovell responded. For instance, 37 percent means CRAC would trigger in 37 percent of the years in the run, he said. During the rate case, BPA provided a lot of data on the TPP analysis, Murphy said. Have the assumptions changed? he asked. We have updated the information, Lovell said, noting that more variability in revenues generally lowers the TPP.

Terry Mundorf, Western Public Agencies Group (WPAG), asked if the reference to a "Slice fix" suggests there would be a change to the Slice contract to allow some rate mechanism to flow through to Slice. This option would affect what Slicers pay for system augmentation since Slicers don't pay CRAC, Lovell responded.

Could you elaborate on the impact of the two options on utilities that have already signed contracts, consultant Ed Sheets requested. There are two types of signed contracts, Berwager replied: pre-Subscription contracts, some of which have a ceiling on PF prices that limits the customer's exposure; and 30 other Subscription contracts that represent about 400 MW of load. All of these contracts have language that BPA cannot change the rate for five years, he added.

If you made the "Slice fix" and BPA sold more than 2,000 MW of Slice, would the TPP improve or get worse? Kevin Clark, Seattle City Light, asked. I don't know, Lovell answered. Would revenues be more likely to cover expenses under Slice than with fixed rates? Clark asked. Yes, but I don't know if it would improve the TPP, Lovell responded.

Pamela Jacklin, PacifiCorp, asked Berwager to clarify his remarks about the amount of power that has already been subscribed and how much would be affected by the proposed changes. Less than 300 MW of already-contracted load would be affected, Berwager responded. Did you allow those who extended their contracts to extend the price provisions? she asked. The pre-subscribers will have the same rates in years six to 10, Berwager replied.

Does BPA believe it can use the existing record in the rate case with Option 1? Jacklin asked. Would FERC find that you could recover costs? she inquired. That's a good question, Burns replied. FERC will want us to come back in the future with a report on the TPP, at a minimum, he said. Jacklin questioned whether the current rate record would allow all of the CRAC redesign alternatives, and she suggested that if BPA runs the TPP with new information for the record, "you will be reopening the rate case."

We have been analyzing the potential impacts and whether we will need to reopen the rate case, Joyce Patton, BPA, responded. We have not come to any conclusions, she added. FERC now is under the ex-parte rule with our rate case, and we can't discuss the merits, Patton pointed out, adding that BPA may be able to talk to FERC on procedural matters. Once we decide, we will ask FERC, she stated.

Do you want our comments on whether we prefer Option 1 or 2? Howard Schwartz, Washington Office of Trade and Economic Development (OTED), asked. Berwager said yes. What will the process be once you determine the option? Schwartz asked. How much time will it take to reopen the rate case? he inquired.

We are reaching the conclusion that even with Option 1, there may need to be a demonstration to FERC, Berwager replied. If we choose Option 1, we could make the contract changes in short order, probably by September 1, he said. If we reopen the rate record and revise the CRAC in "a mini 7(i)," it could be this fall or winter before we have a decision, Berwager continued. Our thinking is that in any case, we will not extend the Subscription window beyond late September or early October, he added.

So Subscription would continue with contracts contingent on the final FERC outcome? Schwartz asked. We would put in the contracts that people could terminate or partially terminate if they are dissatisfied with the rate outcome, Berwager responded. Schwartz asked Lovell to explain the analysis behind the table displaying a redesign of the CRAC. Lovell explained the "Monte Carlo modeling process" from which the table was derived. The IOU benefit, which is capped at 28.1 mills, is among the issues that have been raised, Schwartz pointed out. It doesn't appear that either option deals with that, right? he asked.

All BPA rates would be subject to CRAC, Berwager replied. The early contracts state that they will be subject to the rate approved by FERC, he said. There is a termination clause for the signer if FERC remands the rate to BPA or if a court orders a rate that is higher than what is submitted to FERC, Berwager explained. If we resubmit different rates to FERC, we will give customers the choice to terminate, he said. It is an issue, and I'm confident we can deal with it fairly, Berwager added. So the assumption is that the new CRAC would apply to the early contracts, Sheets observed.

Was the CRAC redesign modeled as though it would apply to the IOU benefit? asked Lyn Williams, PGE. The model doesn't care where the money comes from, Lovell replied. The models don't need to know which rates we are raising, he said.

In Option 1, will there be an opportunity to discuss other terms, like take or pay? Murphy asked. There could be some opportunity, but there is not much time, Berwager responded.

Nancy Hirsh, Northwest Energy Coalition (NWEC), asked about the parameters on the CRAC trigger. The analysis does not get into the limitations on what CRAC would be applied to, Berwager stated. If the financials get to a certain point, CRAC would trigger, he said.

If one of these proposals is adopted, do customers have assurance that the rates will not change for five years? John Saven, Northwest Requirements Utilities (NRU), asked. It depends on the solution, Burns replied. If the CRAC triggers, they would go up, he said. If you're asking whether we think we will need to go back into this again, that answer will be built into the contracts, Burns indicated.

If any of these alternatives is adopted and the contracts are signed, can I say those contracts are good for five years, subject to CRAC? Saven asked. Yes, they would be good for five years, Burns stated.

Is BPA intending to offer 10-year contracts? Jacklin asked. Yes, Berwager said. Have you done the analysis out 10 years? Do you have a basis to conclude there is less volatility out that far? Jacklin asked. We will have a 7(i) process to determine the rate in the second five years, Berwager responded. But only a five-year level rate will be offered? Clark asked. We are thinking we will not offer anything but a five-year rate, Berwager confirmed. So the option to have rates lower in the first three years and higher in the last two is off the table? Clark asked. Berwager agreed it was. It seems you are making changes to the rates as they were adopted, Clark pointed out. We won't change the rates unless we think our decision is supported in the rate case record as it exists – or we'll do a reopener, Patton clarified.

It doesn't make sense to offer "a stepped rate," if we are going to recalculate it in two years, Lovell pointed out. A five-year rate with the three lowest years at the outset could make our problem worse, he added. I did not know that was coming off the table, Clark stated. "Nothing is off the table" – the principles "are the only sacrosanct thing," Burns said. These are options, he added. Are there other parts of the rates you would redo? Clark asked. We will decide about the contract fix, and we have to evaluate further, Burns concluded.

Have any of the measures in the new Biological Opinion (BiOp) been included in the analysis? Ken Johnston, Columbia River Inter-Tribal Fish Commission (CRITFC), asked. Have you looked at potential costs and budget levels? he inquired. We are looking at that and doing an analysis as quickly as we can, Lovell responded. We hope to have the BiOp figure factored into this, he added.

The BiOp measures are within the rate case parameters, Norman said. We have operations in the rate case that go up to $700 million annually, and I don't see anything in the BiOp that looks greater than that, he added. Will the BiOp budgets be included in "the mini-7(i)" to see if the rates are adequate to cover them? Johnston asked. We think we are within the range, and we do not plan to revisit the issue, Burns responded.

How will Options 3 and 4 be analyzed? Hirsh asked. Those options are concepts we've thought about internally, and we want to determine if they are attractive, Berwager replied. Will you do modeling on them? Hirsh asked. Option 3 will take days to model, and Option 4 will take longer still, Lovell replied. We will gauge our analytical efforts according to how much interest there is in those options, he added.

Formal Comments

Wright opened the meeting to formal comments. BPA staff may ask clarifying questions on the comments, but "we won't entertain debates," he stated.

Gregg Caudell, Ferry County PUD: I want to digress to the human interest level of this issue, Caudell told BPA. I'm a Commissioner from a small PUD that has a load of about 15 MW, with about 3,000 accounts, he said. The government invited "our grandfathers" to join in building the dams and later the nuclear reactors, and we sacrificed resources for the benefits the projects were supposed to bring, according to Caudell. Colville tribal lands are part of the PUD's service territory, he pointed out. Caudell said Ferry County is not part of "the new economy" and has chronic unemployment. Increases in the cost of living are a major problem for us, he stated.

We are a full requirements customer and are dependent on BPA, Caudell continued. "We are victims of the insanely volatile power market," he said, adding that Ferry PUD is "hostage to the federal system."

"We bargained in good faith," and we have not asked for an increase in the amount of power we are taking, Caudell said of the PUD's Subscription negotiations. Ferry PUD has been a BPA preference customer for 65 years, he continued. We signed a 10-year contract, and "we expect you to honor it," Caudell stated.

Robin Rego, Lakeview Light & Power: Rego said he was speaking on behalf of the mayor of Milton, Washington. We have been watching the evolution of the wholesale power market with great interest, he said. The City of Milton was encouraged to sign a

Subscription contract early "to beat the rush" and "avoid the bottleneck" as the deadline neared, Rego explained. We signed a contract on July 18, and "we signed in good faith," he stated. Now there is talk of not honoring that contract, Rego continued. We signed a 10-year contract with a five-year rate, and "we expect that contract to be honored," he concluded.

George A. VanArsdall, Lakeview Light & Power: We are a 100 percent full requirements customer of BPA, VanArsdall said. We have never diversified our power supply nor taken load off of BPA, he stated. We stayed with BPA even when the rates were above market, VanArsdall continued. We signed a Subscription contract and have relied on BPA's promise of long-term rates and stability of supply, he said. We were told that the DSIs and IOUs could be served without a raise in PF rates, but it seems that promise may not be fulfilled, VanArsdall pointed out. BPA has made promises to the DSIs and the IOUs that it cannot keep, he said. The answer to the situation is not to charge the PF customers higher rates, VanArsdall urged. The solution is to assess and reduce the commitments to the non-PF customers in light of the known public agency loads, he stated.

Kevin O'Meara, PPC: O'Meara questioned the BPA staff analysis that resulted in the numbers presented on the CRAC options table. BPA has provided minimal detail on its analysis, and that makes it difficult for us to evaluate what was done or to know what your assumptions were, he said. According to O'Meara, he and another PPC staffer "tried to make sense" of the CRAC analysis and came up with what he considered inconsistent results on the BPA table. It is difficult to accept the numbers, he said, adding that the outcomes about the amount of additional revenue it would take to increase the TPP to an acceptable level did not make sense to him. O'Meara also suggested that in its analysis, BPA gave too much weight to what would happen to revenues "on average." You should be more interested in "bad outcomes," he said. The revenue you would need to collect via a CRAC to get to an acceptable TPP is smaller if you look at the lowest 20 or 25 percent of the cases run in the model, O'Meara told BPA.

Wright asked if BPA staff would follow up with O'Meara on his questions and concerns, and Lovell said he would.

Elmer Sams, Tanner Electric: George VanArsdall said about everything necessary to be said, Sams began. BPA understands that some of us have already signed Subscription contracts – "it wasn't just Tanner that signed, BPA signed too," he stated. I grew up in Eastern Washington, Prosser to be exact, and my father was a farmer, Sams said. He was a poor farmer, and I think he was poor because when he shook hands on an agreement, whether he made money or not, "he said a deal is a deal," Sams explained. BPA should do the same thing, he said. Sams noted that the circumstances for pre-Subscription contracts were different than those for contracts signed more recently, but, he reiterated, "a deal is a deal." You can't say "that was one point in time, and we will honor those contracts," but we will not honor these others, Sams said. He also questioned why BPA would decide it has to honor the IOU part of its Subscription agreement, but choose not to honor the already-signed contracts. I have a problem with you saying that one is not equal to the other, Sams concluded.

Dee Youmans, Puget Sound Energy (PSE) customer: I am a 30-year customer of Puget Sound Energy from Lakewood, Washington, she said. According to Youmans, the residents of Lakewood looked into a condemnation of PSE facilities in order to start a municipal utility and reduce electricity rates, but found the cost would be $40 million to $60 million. She said she understood that in the Northwest Power Act, Congress intended the residential and small farm customers of IOUs to receive a fair share of the federal power benefits. We should be treated equitably, Youmans stated. She encouraged BPA to expedite wind power projects to help overcome the power shortage, and she suggested the agency's expenditures on fiber optics might be impacting ratepayers. I urge you to sell or lease your fiber lines, Youmans stated. The fisheries agencies have used electrical force fields to herd fish for years, so why can't this method be used to steer fish away from dams? she asked. All Northwest residents should receive equal federal benefits, Youmans concluded, adding that BPA's Subscription proposal is unfair to IOU customers.

Ed Sheets on behalf of Preston Harrison, Yakama Nation: Sheets said Harrison had planned to speak, but was not able to make the meeting. He indicated that the Yakama Nation would file written comments later in the week. Sheets said the proposed changes in Subscription contracts could have an effect on new utilities that are just getting started. The proposals could, for example, affect a new utility's ability to get financing needed to buy a distribution system, he said. It's important that you honor the contracts that have been signed, Sheets stated.

Tim Hogan, PSE: It is a good thing BPA has chosen to re-examine Subscription in light of the volatility in wholesale power markets, which is driving up power costs, Hogan said. We urge the agency to proceed "in a measured way" with the re-examination, he continued. "The complexity of the issues demands a proper and thorough airing," and the time is available to do that, according to Hogan. None of the contracts take effect until October 1, 2001, and "we have the opportunity to pause and try to get it right – the region deserves no less," he said. Until we understand the volatility in the market and why it is occurring, it would be a bad idea to lock in an inflexible solution, Hogan added. He proposed BPA limit Subscription contracts to a two-year term. "The value of the resource is evident," Hogan said of the FCRPS. He suggested that two-year contracts would allow for a future reallocation of power benefits in the region.

The present situation is forcing cities to consider municipalizing their systems in order to get access to low-cost power, Hogan continued. "It is wrong for the public to have to jump through these hoops" to gain federal benefits, he stated. Take advantage of the time you have and hold hearings before you decide on these matters, Hogan urged.

Paul Murphy, DSIs: The notion that you can change the contracts without making changes to the rate case record is wrong, Murphy stated. We are here because the rate case forecasts are not right, and those facts are not in the record, he said. Murphy pointed out that he and other customer representatives have been working jointly to evaluate solutions that might be agreeable to all customers. We have not vetted the ideas with our principals, he explained. These options on CRAC redesign are new to us, and we would request that BPA extend the time for making written comments to the close of business on August 24, Murphy suggested. He said the extension would allow more time to reach a consensus in the customer group.

Norman indicated BPA would consider the request for an extension and make a decision before the end of the meeting.

Terry Mundorf, WPAG: Mundorf said he had an overwhelming desire to respond to Hogan's comments, but would refrain from doing so. I would reiterate Paul Murphy's request for an extension of time, he continued. We [joint customer group] are still working on this and making progress; we hope to have something to present to you before the end of the week Mundorf reported. A delay in the close of comments would facilitate what the customers are working on, he added.

Johansen asked Mundorf his view on the availability of data and information from BPA that the customers need for their work. It is always better to have more rather than less information, he responded. Our work would have been easier with more information, Mundorf stated, adding that such a view must "be tempered with the reality that you can get lost in the data." BPA staff have made themselves available, and "we are moving on," he said. "It's past time we should be arguing about that," Mundorf concluded.

Jim Goble, Columbia Falls Aluminum Co. employee: Goble reported on a 1998 study, which estimated the economic importance of the aluminum industry to Flathead County, Montana. In 1998, the Northwest aluminum industry sold more than $3 billion worth of products and employed about 10,000 people in Oregon, Washington, and Montana, he said. In Montana, the industry employs 620 workers, virtually all of whom work at Columbia Falls, according to Goble. Montana's aluminum industry employees earned $24.4 million in wages in 1998, with an average wage of $39,620 (excluding benefits) per year, which is approximately 1.8 times the state average, he pointed out. Goble said the report estimated the industry's total economic impact in Montana, using a 3.4 employment multiplier, and concluded the impact equated to 2,110 jobs, or 0.4 percent of the total state employment.

The impact of the aluminum industry on Flathead County is large, he indicated. Columbia Falls accounts for 4.3 percent of the direct employment and supports approximately 1,980 other jobs in the county, according to the 1998 study. The industry accounts for 5.3 percent of the county's tax base, Goble reported.

In the state of Montana, the aluminum industry is a major provider of high-paying jobs, he concluded. Goble urged BPA to adopt Option 1 and place restrictions on what can trigger a rate case.

Kevin Clark, Seattle City Light: Clark indicated there are two sides to the problem with the TPP: the quantity of power BPA needs to meet its load, and the price. The quantity half of the problem could have been resolved if BPA had kept in better communication with its customers, he stated. "The cost part of the problem we understand," Clark said.

I prefer the approach in Option 1, he continued. If we wait for a year or two, "this crazy market might calm down," and new resources might come on line, Clark said. I would also recommend that we get contracts signed on time, he stated. Hold to the September deadline, Clark urged.

I would join with Terry in asking for an extension of time to make comments, he added, noting that Seattle hopes to join with other customers in a broad-based solution to the current Subscription problem.

Terry Smith, Columbia Falls Aluminum Co. employee: BPA has a tough problem on its hands, but so do we, Smith said. We need affordable power, and our employer needs affordable power, he continued. Don't try to fix every issue in the region, just address the fact that you have more load than anticipated and that market prices are higher than forecast, Smith advised. We need our jobs, so solve the problem quickly – the solution must protect our jobs, he added. Smith said did not oppose the Good Corporate Citizenship Clause BPA proposes to put into its DSI contracts, but suggested it was not necessary.

Columbia Falls Aluminum needs a new five-year power contract, he stated. Protect our valuable aluminum company jobs, Smith concluded.

Howard Schwartz, Washington OTED: We have consistently supported the Subscription principles and process, and we supported the allocation of benefits that was finally arrived at with the customers, Schwartz stated. We have also supported the Slice product as a way of ensuring a long-term commitment of benefits to customers, he added. This options process should not reallocate the benefits, and it should not interrupt Subscription, Schwartz stated.

I'm leaning toward Option 2, he went on. It keeps the benefits allocated as they have been all along, Schwartz observed.

In looking at the big picture, the 300 MW already subscribed is not enough power "to put into play," he stated. If BPA can honor the contracts that are already signed, "perhaps, given the small amount of impact, it would be a reasonably fair thing to do," Schwartz concluded.

Nancy Hirsh, NWEC: Hirsh said she appreciated that in the four principles Berwager enumerated, one gave priority to encouraging conservation and renewables. I am also pleased that you are shooting for an 88 percent TPP and that you have not lowered that figure, she added. I am more interested in Option 2 and the alternatives that rely on a forecast of earned revenue for calculating the CRAC, Hirsh stated. We have argued all along that we need to use a forecasted number to determine the TPP, she added. There should be consistency between the approaches used for calculating the dividend distribution clause and the CRAC, according to Hirsh.

We would like you to look at the level of the IOU monetary benefit, she continued. There is a 28.1 mill cap, and we think that should more accurately reflect the market and BPA's augmentation costs, Hirsh stated.

I would like to point out that the customer discussions on a compromise solution do not include all interests, she said. There are others with a stake in the system, and we would urge you to be open to all comments, Hirsh concluded.

Pamela Jacklin, PacifiCorp: The substance of our comments will be in writing, Jacklin said. Our company is involved in the customer talks too, she reported. Jacklin indicated that a key aspect of the Subscription strategy was fairness and equity, and the solution proposed to solve the current problem needs to keep that principle. We should keep what we were promised – we should not lose ground, she stated. An issue that BPA should "keep on its screen" as it evaluates the options is the potential for impacts to the IOU Subscription benefits, Jacklin said. Some of the options in the CRAC redesign would have a negative impact on IOU benefits, she stated.

Ken Johnston, CRITFC: The customers are meeting to come up with proposed solutions, but not all of us are in that room, Johnston pointed out. He said CRITFC expects its comments will be given the same weight as those of others. Johnston reiterated the request for an extension of the comment period. It would be in everyone's best interest, he added.

We applaud BPA for its admission that the load forecast is wrong compared with the rate case estimate, Johnston continued. But the solution requires more than two quick options, he said. Johnston urged BPA to re-read the CRITFC and Yakama testimony in the rate case to come up with "a more reasoned solution to risk." BPA would like to revisit its load forecast as though it occurs "in a vacuum," but that is not adequate, he said. Johnston indicated that the "quick fix, band-aid" approach BPA is proposing won't satisfy its tribal Treaty and trust obligations. If BPA had accepted CRITFC's testimony in the rate case, which called for rates to be set at 25 percent below market, "we would not face this problem," he stated. BPA must address the risks outlined by CRITFC in its rate case testimony, Johnston continued. Otherwise, you cannot come up with a credible rate proposal, he said.

The current rates do not satisfy BPA's trust and Treaty commitments, Johnston reiterated. The rates ignore the mandate for complying with the Clean Water Act on the lower Snake River, he said. "BPA is relying on stonewalling by the Corps" and the veiled implication that others might somehow cover the costs, Johnston contended. The rates proposed do not adequately cover the risk BPA faces, especially in the area of fish and wildlife, he went on. The method BPA used in the rate case to weight the fish and wildlife alternatives is not adequate, and BPA has no biological rationale for its rates, Johnston said.

The costs of the measures proposed in NMFS' draft BiOp are extensive, and the funding BPA anticipates is inadequate, he indicated. If funds left over from the Memorandum of Agreement are used to comply with the new BiOp, they will not be available in BPA's reserves, Johnston pointed out. If the tribes are correct, BPA will fall well short of an 88 percent TPP, he stated.

"A speedy look" at the problem is not enough, Johnston contended. The arguments made in CRITFC's rate case testimony still hold true: BPA needs to have 25 mill rates and more robust risk mechanisms, he concluded.

John Saven, NRU: If you look at the Subscription process that began some years ago, it was predicated on the need for a regional solution, Saven pointed out. I would be the first to acknowledge there are new financial circumstances to deal with, he said. But we need “to look for a fix that is specific to the problem; don’t open up everything,” he urged, adding that to do so could jeopardize the region having a regional solution.

The utilities I represent signed pre-Subscription and Subscription contracts earlier this year, Saven continued. Other utilities were close to signing when the process closed, he added. The solution has to be fair to everyone, and I am working with the joint customer group to come up with a fair and reasonable solution, Saven said. BPA needs to retain an 80 percent TPP, he continued, noting that his aim was toward a solution that gets BPA to 80 percent, not 88 percent. I’m not driven to come up with a dividend distribution clause, Saven said. Focus the solution on an 80 percent TPP, he urged.

In the short term, we have time to communicate, Saven went on. “It seems that BPA has been off on its own working the numbers,” he observed. The customers are trying to work on this, and all of us are committed to a reasonable solution, Saven said. Make the time for a reasonable dialogue, and keep the comments open until Thursday or Friday, he advised.

We don’t want to delay Subscription, Saven stated. Let’s finish the process that was started in the Regional Review, and let’s fix, in a reasonable time, only the problem that has arisen, he concluded.

Al Canada, Grants Pass: Canada noted that he produces a solar voltaic newsletter. He contended that solar voltaic energy could be introduced economically to the Northwest grid. Canada recounted a history of attempting to interest the region’s energy planners in solar voltaic energy. “There is no question” that with mass production and the opportunity that exists in the Pacific Northwest, we could have a high chance of success in delivering solar voltaic energy into the BPA system for 1.5 cents per kwh, he said. It is “out of bounds” at the Northwest Power Planning Council to consider solar voltaic energy, Canada reported, and he said his petition to intervene in the BPA rate case was denied. Is the prohibition on considering solar voltaics still in force or not? Canada asked.

Dave Piper, Pacific Northwest Generating Cooperative: I concur with John Saven on the issue of equity in the region, Piper said. He urged BPA to make a decision “in a narrow band” and not get into other issues. “Make the decision and move on,” Piper recommended. He advised against extending the Subscription deadline beyond September 30. Piper said BPA should not defer its decision on the Subscription options more than a week or two, and he indicated that other deadlines and decisions customers are facing could be impacted by further delays.

Tom O’Connor, Oregon Municipal Electric Utilities: I want to echo the Washington utilities’ comments, O’Connor said. The cities of Cascade Locks and Monmouth have signed contracts, and my understanding is that BPA intends to honor those contracts as signed, with a five-year price, he stated. I hope that does not slip aside, O’Connor added.

Norman’s Summary

Norman summarized key messages in the comments as follows:

1) With regard to the principles BPA wants to apply to a solution, Norman said, "we heard endorsement of some of those, and we heard some disagreement with them." In making your written comments, we could use feedback on the decision criteria, he stated.

2) We heard from the early Subscription signers that you are concerned about "a breach of faith" if those contracts are changed, Norman said. And we have taken note of the Yakama comments that some solutions could hurt in the formation of new utilities, he added. We will honor our contracts, Norman stated. He added that language in early contracts anticipates they will have the rates that FERC approves. We understand your comments and take them seriously, Norman said.

3) We understand the customers are working jointly on recommendations, and we would welcome that, he continued.

4) Non-customers are working on recommendations too, Norman observed. We hear that, and if you want a follow-up meeting with BPA, we are open to it, he said. Norman advised non-customers to work with John Taves, BPA, to arrange further discussions.

5) We've heard comments about the lack of detail we provided on our analysis, he said. We will try to fill in the gaps if we can, Norman stated.

6) There was a broad request for an extension of the deadline for written comments, he observed. We will extend the deadline to the close of business Thursday, August 24, Norman stated.

7) We heard both "stick to the current deadline for signing contracts and drop back and punt," he recounted. Please address that point in your written comments, Norman urged. We made a proposal that would push the deadline for signing contracts out by two and a-half weeks, and we need to hear from you on that, he added.

8) We heard comments about the "balance of interests that was struck in Subscription," Norman continued. We also heard recommendations to take some of the power away from the IOUs and DSIs, he said. Some commenters are suggesting the original balance wasn't right, Norman stated. Our bias is not to upset the fundamental balance that resulted from Subscription, he said. We need to hear your advice on that issue, Norman stated.

Wright asked for additional comments or questions. The written comments must be in BPA's hands by the close of business on August 24, he reiterated.

Adjourn