Notes from the Columbia River Power and Benefits Conference
Tuesday, September 29, 1998

Deputy BPA Administrator Jack Robertson gave an overview of the day's agenda and introduced Administrator Judi Johansen.

I appreciate your efforts to join us here today, Johansen said. We have important issues to address, she said, urging participants to be "candid, clear, and constructive" in their comments. I asked for this session knowing that the subscription proposal would be met with concern, Johansen continued. The idea is to stimulate discussion for my benefit and for the benefit of BPA's senior staff, so we can polish up the proposal, she said.

The choices BPA is facing will affect the region's environment, economy, and culture into the next millennium, Johansen indicated. We need to focus on the benefits the system brings us, and we ought to talk about how to preserve those benefits for the region, she said. Decisions will have to be made, Johansen stated, and many will be made by BPA. One of the things I'm instilling at BPA is to define the benefits as the region does -- this is an effort to understand the values of the region, so we can reflect them in our proposal, she said.

I'm proud of this proposal, Johansen stated. It is the result of balancing many interests and complexities, she said. It is fair to say this region has shown a willingness before to work together to preserve the benefits, and it's time to do it again, Johansen said. She pointed to the Canadian storage negotiations and the passage of the preference law as successes of the past.

The debates today are reminiscent of the late 1970s and early 1980s, a period of energy shortages, she said. The Northwest Power Act was a pivotal expression of this region's priorities in terms of the division of power, rates, conservation, and fish and wildlife (F&W), according to Johansen. That is not to say the Act was flawless, but it was the best decision at the time -- people set aside their selfish interests and "slavish adherence" to rights, she said. This region is capable of coming together again to preserve the system, Johansen stated.

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Overview of the Proposal

I view the proposal as an important building block that will bridge us to an uncertain future, Johansen continued. The electricity industry continues to evolve, and we do not know what three of the four Northwest states will do with deregulation, she pointed out. This proposal is the first time BPA has had to step out into a deregulated market "naked of monopolistic power," Johansen said.

We have a lot of things we are trying to balance, she said, listing "the interests of core customers" -- public agencies, IOU residential and small farm load, and DSIs; public responsibilities and legal obligations to F&W; and BPA's financial soundness and obligation to repay Treasury. I want to be sure we continue our leadership role in renewables and conservation, Johansen added.

We still face market risk and uncertainty, and we face uncertainties about water conditions, system capability, and fish operations, she pointed out. We have come up with a sound package that delivers important benefits to the core customers, Johansen stated. BPA will offer federal power at cost which is at or below current market levels, she said.

Johansen outlined the pre-2006 features of the proposal as follows: preference customers still enjoy preference and can take their full load, net of their generating resources. We are currently serving preference load at 4,300 MW, she said. We are recommending that we sell power to IOU residential and small customers up to 1,500 MW, with the DSIs getting up to 1,000 MW of firm, depending upon how much preference customers take, Johansen explained.

Post 2006, long-term and extraregional contracts will expire, and we want to return that power to the region, she continued. Preference customers "will get first crack," and IOU exchange customers should also see some of that benefit, Johansen said.

The question is whether we got it right, she said. My lawyers say the proposal is clearly within BPA's authority, but from the public policy perspective, did we get this right? she asked.

One of the big things for BPA is to take further steps toward cost control and efficiencies, Johansen said. We have to have the proper cost structure, she explained, and we are committing ourselves to achieving the Cost Review panel's recommendations of $130 million in additional cuts. This next increment "will be extremely painful," but we have to do it to develop the proper cost structure that will enable us to deliver power below market, Johansen said.

The next issue is how BPA is managing the financial risks, she continued. Where does the money come from if there are bad water conditions or a Congressionally mandated costly fish recovery plan? Johansen asked. She outlined a series of "building blocks" BPA will use to meet risks, including nearly a billion dollars in revenue from core customers; revenue from surplus and secondary sales; existing reserves, which she said are projected to be about $500 million at the end of the rate period; and other credits. If we get into trouble, we're proposing a cost recovery adjustment mechanism on the power side of up to $100 million a year, which could mean a 2 mill surcharge, Johansen said. The likelihood of the mechanism triggering is low, she added. In the "very unlikely event" we do not cover our costs with all of these sources, we have a "modest" wires charge, Johansen stated.

The wires charge "goes against my grain" because I believe power and transmission are separate businesses, she stated. But the statute requires repayment, and the wires charge will be treated as a loan, Johansen said. Treasury deferral is obviously an option, but "it is the last thing we want to do, especially in view of the threats to cost-based power, she stated.

Questions about preference have been raised, Johansen indicated. While some areas in our proposal are silent about the timing and sequence of subscription offerings, we have no choice but to adhere to the preference laws, she said. We have also heard customers question how they can make choices on subscription without a transmission rate case, which will be held closer to 2000, she explained. I think there will be certainty during subscription about the direction of transmission rates, Johansen said, adding that the power rate case will suggest the treatment of General Transfer Agreements (GTAs), reactive power, and generation integration.

Another issue being raised is service to the DSIs, she continued. "The arguments are all over the place," Johansen stated: some say the DSIs don't have a right to power, and it's time they go to the market; on the other side, people say the Northwest Power Act contemplated the DSIs would continue to benefit from the system. I agree with the latter, she said. I think it is the right public policy choice, Johansen stated.

BPA's timing in closing subscription is a concern, she pointed out. The plan is to close in November 1999, but I have some flexibility on that, Johansen said. The preference customers go first, and they need time to consider their purchase, she said. But we have to be careful not to disadvantage others, particularly the DSIs, Johansen added.

We are providing a stable rate for core customers built on a foundation of flexible funding mechanisms, she explained. I am particularly interested in whether you think we struck the right balance, Johansen said, adding she also wants comments on how renewables and conservation fit in if BPA is not the central resource provider.

Our proposal is not "cast in concrete," and I'm here in good faith, she stated. I feel strongly about the fundamentals, Johansen said: preference goes first; IOUs get benefits of federal power; and our DSI partners receive significant benefits from the system. "This is a bridge to our future," she stated, adding that the proposal has to be seen in light of uncertainty BPA faces from forces outside of the region. Getting a unified, sustainable, and scientific fish plan in place is critical before we can go deal with our adversaries outside the region, Johansen counseled, and she urged the audience to think about how the Northwest will fend off attacks on cost-based federal power. Johansen said she is open to suggestions on whether there is a better institutional structure for marketing federal power and operating the transmission system.

"The Northwest is to renewables technology what Silicon Valley is to computer technology," she said. How do we stay ahead of the curve to have clean energy supplies? And how do we assure that the federal system reflects the values of the region? Johansen asked. Let's work together on a building block that bridges us to the future and that provides stability "before someone else does it for us," she concluded.

Jim Waldo, Gordon, Thomas, Honeywell, moderated a series of panels organized along various issues. You are looking at a subscription proposal and a strategy for BPA to pursue, he said. Judi and the top management of BPA are genuinely interested in your comments about balancing customer interests and positioning BPA to move into a competitive market, Waldo stated.

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Panel One: Availability of the Federal Columbia River Power System

Paul Norman, BPA, led off the panel with a description of the elements of the proposal that pertain to how much power various customer groups can buy and the rate structure. In an average water year, the resources BPA markets generate about 10,000 megawatts; in a dry year that drops to 7,800 MW, he explained. About 1,500 MW are already tied up, which leaves 6,300 MW of firm power to sell in subscription, Norman said.

In putting the proposal together, BPA was guided by several principles, he stated. We considered whether we should grow the system, and we took the approach of minimizing acquisition, Norman said. We also took the approach of providing an array of products to position us to meet diverse customer needs, he continued. We are setting rates to deal with risk management and to avoid another "contract cliff," Norman explained. We wanted to "slim the 800-pound gorilla" in the region by minimizing BPA's market presence, he said, and we chose to honor customer loyalty by recognizing those who stuck with us "when the going was tough." A core piece of the proposal is to reduce costs to keep rates below market, Norman stated. He then went over several specific components of the proposal.

The proposal fails in providing an adequate and broad allocation of federal power, according to **Ron Eachus, Oregon Public Utility Commission.** This is not an issue of public versus private or consumers versus DSIs, he said. It's an issue of what is left over after the preference customers are served, Eachus said. He questioned why customers without a right to federal power would be served when customers with a right were being limited. The justification for serving the DSIs because of the past is not valid -- they have no claim based on historical use, Eachus said, adding that the DSIs negotiated an exemption from any stranded cost obligation by saying they were not historic customers, but now want to turn around and argue that their historic use is a reason they should get federal power. The 1,500 MW allocation to IOU customers is not adequate, he stated. Eachus referred to principles submitted to BPA by the region's regulators asking for 1,800 MW. The subscription proposal offers less than that and then caps the eligibility, he pointed out. "The cap is egregious," Eachus stated. In Oregon, IOU customers will not get half of what they got before, he said, adding that PGE and PP&L customers will not see the proposal as fair. They will see that they are being short-changed, while power is being given to the DSIs, Eachus indicated. It would not take a large change to the proposal to provide fairness, he said. Remove the cap on the IOUs and make a firm commitment to giving them access to the 2,200 MW that will become available in 2006, Eachus recommended.

The proposal is not perfect, but it begins to remove "some of the prejudice and ossified positions of the past," and it starts on the road to fish recovery, **Jason Eisdorfer, Oregon Citizens Utility Board** stated. "BPA is looking like a public agency again," he added. The proposal falls short on sharing benefits, and it is still fuzzy on rate equity, Eisdorfer said. The residential customers of IOUs get a minimum and maximum of 1,500 MW, and the DSIs get a minimum of 1,000 MW plus interruptible power, he pointed out. There is no cap on the DSIs and it looks like they could get a total of 2,200 MW, Eisdorfer said. On principle, having DSIs get more than residential customers "makes my digestion reverse," he stated. The IOUs came into the process with "a modest proposal," Eisdorfer contended, and BPA’s response fell at least 300 MW short. The proposal is going in the right direct, but it’s not "truth" yet, he stated.

Bob Anderson, Montana Public Service Commission, called the proposal "pretty good." But we should aspire to be great, he added. From the Montana perspective, "the report card is mixed," Anderson stated. By virtue of its geography, Montana is sometimes out of the consciousness of this part of the basin, he said. We are sparsely populated, with a total residential load of 50 to 80 MW, Anderson explained. We do not have anadromous fish, so we do not benefit from the "high-priced" fish programs, he pointed out. The principles the PSCs submitted have to do with priority, and they were not met, Anderson stated. We’d ask BPA to fix that, he said. Lift the cap on IOUs, Anderson urged. He also questioned the "deeming" status of Montana Power, Idaho Power, and Washington Water Power as participants in the residential exchange. We should not take that legacy into the future -- make it a vestige of the past, Anderson recommended. Montana is the only state in the region that has passed restructuring legislation, he continued, and the transition period is "a rocky road." Montana Power is getting out of the supply business, so getting benefits to the company’s residential customers will require new mechanisms, Anderson said. We are beginning to explore new ways of delivering power with aggregators and buying co-ops, he explained. We need flexibility from BPA as we plow this new ground, Anderson concluded.

"I agree with the recommendations of those who have spoken before me," **Anne Levinson, Washington Utilities and Transportation Commission,** stated. It is important to note that the PSCs are unanimous, since we aren’t always, in our recommendations with regard to the IOU residential and small farm customers, she said. Our goal is to achieve a minimum level of benefits for the IOU customers to achieve an equitable sharing of benefits, Levinson said. We are not proposing IOU needs cut into those of preference customers, we are talking about the leftover power, she explained, and "it ought next to go to the IOUs, not to the industrials." I suggest BPA use cash to get to the 1,800 MW now, and develop a commitment to provide the rest of the power post 2006, when other contracts expire, Levinson recommended. We support equal rates for the preference customers and the IOUs, she said, and she praised the aspect of the proposal that recommends the PSCs take on the allocation of IOU benefits. It’s unclear whether the proposal includes shaping power for IOU customers and whether there would be a slice product available to them, Levinson pointed out. She applauded the proposal with regard to conservation. The forecasted power shortfall makes it the right time for the region to renew its commitment to conservation, Levinson said. We would encourage you to have rate discounts tied to measurable results, she said, and she urged BPA to support the Regional Technical Forum.

Subscription presented "some pretty ugly issues," and this proposal is a good start at responding, according to **Terry Mundorf, Western Public Utilities Group**. In the category of "good news," he said the numbers are "approximately right" for the blocks of power to customer groups. For public power, the important issue is preference "first and foremost," Mundorf stated. The PF(2) rate does not look good from the public agency perspective, he said. New load would be facing a higher rate, and it’s hard to square that with 2,000 MW being available to nonpreference loads and with the idea that power coming back when out-of-region contracts expire would be made available to nonpreference customers, Mundorf stated. He pointed out that it isn’t clear where preference fits in with giving priority for nonfirm power to the DSIs. This could increase the costs of generation and diminish the value of the slice product, Mundorf contended. The approach to the exchange has the potential to get agreement, he said, but the exchange could raise costs to the publics. Mundorf also said he was uncomfortable with giving traditional BPA authority to the PSCs and with the disposition of "deemers." He said there are some "mixed signals" in the proposal with regard to putting contracts on variable rates, treatment of F&W costs, and financial components of the exchange. You could be getting money on one side and giving it away on the other, and "I’m not sure that’s progress," Mundorf quipped. The changes suggested here will be with us for a long time, he commented. It’s not a good idea to start subscription before we know what we’re doing or to close the subscription window before the rate case is over, Mundorf stated. Everyone needs to know the prices before the process comes to an end, he concluded.

Mark Gendron, City of Idaho Falls, commended BPA for rolling GTAs into its proposal. To do otherwise would have crippled small systems with increases in transmission costs, he stated.

Including the IOU loads in the subscription process is a good feature of the proposal, as is limiting "the growth of the pie," according to **Bill Pascoe of Montana Power Company** (MPC). He commended the language that deals with load gain and annexation because "it doesn't create an incentive for one supplier versus another." Pascoe also said he liked the idea of discounts for renewables and conservation. We would like to see more power available to the IOUs, he stated, adding that the 1,800 MW requested represents less than 30 percent of the eligible load. The "deemer balance" is cause for concern, Pascoe said. The balance is evidence that a utility's customers did not have benefits under the old system, and to make them work off the balance "is punitive," he stated. Pascoe urged BPA not to go to a wires charge as a way to address stranded costs.

Attorney Eric Redman expressed reservations and objections on two levels: first, the proposal "aims too low," and second, some elements are questionable and may be illegal. The Northwest Power Act was passed to avoid this day -- it was to give BPA the tools to avoid allocation, because "allocation leads to squabbling," he said. BPA has always aimed high to use its authority for F&W recovery and for conservation, Redman continued. You should do this for power, too, he said. The idea of making a Section 5(b) sale at Section F rates is "anathema" under the Act, Redman said. It diminishes the supply available to other customers, he added. Redman contended there was a reason for the exchange being structured the way it was in the Act. There are rules of the game, and one of the rules is that you can form new publics, he said. But "to convert the IOUs to publics" for purposes of the Act is not the way to solve the problem, Redman stated. BPA should figure how to meet the load placed on it, he stated. The load may exceed the power available, and while there is no statutory obligation, the purpose of the Act was to give BPA authority to acquire resources, Redman said. If the exchange does not work because of the average system cost calculation, it needs to be fixed so it will work, he suggested. But taking benefits that should be available to new publics -- "it's anathema," Redman stated. People will not get away with it -- it will not be successful, he concluded.

I'm struck by the profound reliance of the proposal on embedded concepts -- "loyal customers and the vintage approach to allocation and pricing," **Tom Schneider, Montana League of Cities and Towns**, observed. To rely on past customer loyalty does not address how we ought to look at pricing and access going forward, he stated. Addressing the PF(1) and PF(2) pricing proposal, Schneider said, Montana has not had a public power history like some of the Western states. There have been new developments in the state aimed at forming new public entities, he reported. Helena has formed a municipal utility, and 34 municipalities have joined in an aggregation strategy, Schneider said. He suggested that the new entities will want the ability to get power as preference customers. MPC is divesting its supply, and PacifiCorp is divesting its distribution system, Schneider pointed out. "Let's not thwart ways to assist small customers" as new choices present themselves, he urged. Take another look at this "vintage approach," Schneider recommended.

Margie Schaff, representing the Spokane Tribe, indicated some tribes are interested in becoming customers of BPA. The tribes would be a different type of BPA customer because of their governing structure, she said. Tribes hold in common cultural, spiritual, and economic ties to the river, according to Schaff. We would support the opportunity for tribes to become customers of BPA -- that opportunity would honor the tribes' ties to the river, she stated.

"Keep your eye on the prize," **Steve Weiss, Northwest Energy Coalition** (NWEC), told the group. Remember that the region could lose the economic and environmental benefits of the river if we do not have a consolidated and balanced approach, he said. The key is spreading the benefits widely, Weiss stated. BPA deserves credit for a proposal that balances preference, IOU, and DSI interests, he said. When the DSIs negotiated their exemption to stranded costs, they gave up their right to the system, Weiss contended. But the DSIs "have to be bought off -- they are powerful," he stated. Serving IOU load is crucial for BPA's future, Weiss said. Residential customers are voters who provide the political support BPA needs -- "without that support, we cannot keep the prize," he commented.

Comments and Discussion

Pat McGary, Mason PUD 3, asked why the IOUs' deemer status should go away. You have to start by looking at the logic of the status in the first place, Anderson responded. Why should Montana customers enter the fray with a handicap? he asked. Solar generation is coming along so rapidly that we could add resources to the system at one cent per kilowatt-hour, according to **Al Canada of Grants Pass, OR**. That would solve many of the allocation problems described here today, he stated. **Fergus Pilon of Columbia River PUD** said the proposed mechanism for spreading benefits to IOU residential and small farm customers is inappropriate, and he asserted that any power that returns to the Northwest from extraregional sales is a public power resource. "These have been paid for by my customers," Pilon stated. An expanded or new preference load should not be subject to any prorating mechanism, but should be served entirely from federal resources, he stated. PUDs in Oregon need statutory help in order to expand, Pilon said, and he asked for Eachus' help to change the statute in the next session of the legislature.

Eachus responded that he would not get involved in customers' electoral choices. This is not an issue of public versus private, but what happens when the publics have taken what they need, he said. The Northwest Power Act aimed to spread the benefits, and as long as we have the ability to pass those through without profit, it should happen, Eachus said. The residential exchange "is broken," Eisdorfer said, and that is partly because the publics see it as a subsidy. Our proposal is modest, and it doesn't step on the 5,500 MW preference right, he added.

What happens to the resources the IOUs won't be using if they are eligible to buy a block of power from BPA? asked **Bob Crump, Kootenai Electric**. It would not just be IOU generation; all generation will be on the market, Anderson responded. That is a good question, Mundorf responded, adding that there are IOUs in the region with some of the lowest rates in the nation. "Where goes that hydro power?" he asked.

I hear mixed signals from public power, Johansen observed. Are you suggesting it is the right outcome for BPA "to open the floodgates" for low cost power to new publics? she asked. I am also hearing that would mean a dilution of benefits, Johansen said. How big do we get? she asked. Mundorf said the answer is complicated, suggesting that BPA's obligation is to accommodate new publics without constructing obstacles like tiered rates. The dilution problem is probably "self correcting" with prospects for rate increases, he added. With the return of power from California, you can accommodate new publics, Mundorf said. Pascoe said it was not wise to put BPA in the central role of developing resources, and he noted that there was "absolute consensus" on that issue in the Regional Review.

Six times since California opened access, they have interrupted interruptible load, something that was never done before, according to **Jeff Shields, Emerald PUD**. Do you anticipate that you will truly interrupt? he asked. With regard to market access, if the IOUs receive increased federal power, could they then claim stranded costs for resources they are not using? Shields asked. Stranded costs would be applied across the board as a nonbypassable charge, Eachus responded. He acknowledged that the situation with passing through federal benefits is complicated by retail access. "We are changing the paradigm," Eachus said, adding that it may take state legislation to address the issue.

The problem is allocating something that does not need to be allocated, according to **Brett Wilcox, Northwest Aluminum Company**. You have artificially constrained resource acquisition, he said. Wilcox suggested that allocation increases the risk for BPA. You have to look at what commitments customers are making, he said. A direct sale to the IOUs may not be legal, Wilcox continued. And what about the power freed up? he asked. You have to see that it stays in the region for the benefit of the region, Wilcox stated. You have to protect new preference customer rights, he added. Wilcox questioned whether BPA's proposal will provide a bridge to the future. This proposal "prejudges" the future "by looking in the rearview mirror," he stated.

If you allow unlimited growth by the publics, initiatives like Oregon's Domestic and Rural Power Authority (DRPA) will surface, contended Weiss. You shouldn't prevent new publics, but you can control them, he said. "We have to keep our eye on the prize," Weiss reiterated. Giving some amount of federal power to the IOUs is "a political necessity" and "sticking to rights" will lead to disaster, he predicted.

Redman said he did not want BPA to be a central planner. The point is for BPA to use its acquisition authority to avoid allocation and increase regional benefits, he said. You can do a 5(b) sale, but insist that the power freed up "is not leaving the region," Redman advised. Keep to the intent of the Act so the benefits reach domestic and rural customers, while keeping other customers on board, he said.

One thing that does not exist is standard contract terms, Eachus pointed out. We have a subscription process going on without rates and without standards, he said. At some point, it will be important to know the conditions of the contracts -- we are speculating about the amount of power people will buy, without knowing the terms and conditions, Eachus stated. We have a process problem, he added.

An **Enron representative**, noted that BPA will use techniques to firm 1,000 MW of nonfirm energy, and he expressed concern about "the 800-pound gorilla." This is an example of the sort of market power BPA can exercise, especially when compared to how the power would otherwise be sold, he suggested. The transaction will be "backstopped" by the transmission system, and that "goes against our grain, too," he added.

I would like to echo the concerns about BPA not acquiring resources, **Paul Murphy, Murphy & Buchal**, said. Other customers will be able to stand back, weigh their alternatives, and delay an offer to the DSIs -- this diminishes the value to us, he stated. Murphy suggested that allocating power and backstopping it with transmission pits customers against each other. "You are setting up a tension in the region that is unnecessary," he said.

K.C. Golden, Washington State Department of Community, Trade and Economic Development, asked about the disposition of low-cost IOU resources. Several speakers agreed the benefit would go to ratepayers. That suggests you would reduce rates for IOU customers again, Redman pointed out. **Attorney Pam Jacklin** said even if the IOUs made a good sale on the displaced resources, it would mean IOU customers are not paying "as much more" for power compared to BPA's preference customers. We are trying to keep BPA benefits in the region, **Chuck Dawsey of Benton REA** said. With regard to the deeming status of some IOUs, he noted that utilities chose to participate because they saw that at some point, there would be benefits. **Ken Canon, Industrial Customers of Northwest Utilities**, said there is up to 9,000 MW of commercial and industrial load that is not included in the entitlement to federal power. These customers become concerned about a wires fee because they have no opportunity to benefit from the power system, he said.

Administrator's Comments

We are not saying this is an allocation, Johansen said. The effect of the differentiated rate makes it feel like that, she acknowledged. BPA has to stand ready to purchase power, Johansen said. What happens to the displaced IOU resources? It concerns me, she stated. Our intent is to preserve benefits for the region, not so low-cost power can leave the region, Johansen stated. We do not intend to close subscription before the rate case is over -- we certainly will allow several months for customers to ruminate, she said. The DSIs are at a very disadvantaged position, Johansen observed, adding that there is a balance to strike in the duration of subscription. A big issue is "how big do we get," she stated. That is a balance we need to hear more about -- we have the discretion to deal with the issue either way, Johansen added.

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Swift's Luncheon Address Summary

Former Congressman Al Swift said being assigned to the Commerce Committee during his first term of Congress gave him "a first-class ticket to writing the Northwest Regional Power Act." It was not perfect, he said of the Act, but it was "a success in many ways." The Act "prevented a civil war over power allocation" in the federal system, Swift stated. The debates today are similar to those when the Act was passed -- we were debating the sharing of benefits, he continued. We only solved the debate when "greed was put aside, and people came to the table to compromise," Swift said. The compromises were difficult and came about because the interests perceived a threat, he said. "By agreeing to share the system, we kept it," Swift stated.

Key members of Congress at the time -- Magnuson, Jackson, Hatfield, Packwood, and Foley -- were crucial to passing the Act, he indicated. While the Northwest still has significant members in Congress, none have the positions of authority our delegation members had then, he said. "They cannot sell to Congress that which is not agreed to in the region," Swift stated. If we do not come together now and agree to share the river, the alternatives are chaos or a solution dictated from outside the region, he said. The likely outcome is the latter, Swift added. Those who do not believe the benefits of the federal system are at risk need to come to the party, he continued. Cost-based rates and preference were in jeopardy 20 years ago, and they are in jeopardy today, Swift said. He noted that BPA's debt refinancing has helped with perceptions by raising the interest rates on the system's debt, and BPA is direct funding some Corps and Bureau activities.

There are lobbies that want to privatize federal power, Swift cautioned, adding that during "drive time" in Washington, D.C., there are radio ads urging Congress to eliminate federal power. He indicated that the Northeast/Midwest Coalition is moving on its drive toward that goal. There is talk of establishing three grids, and the Northwest lies between low-cost Canadian power and the markets of California and the Southwest, Swift pointed out. Watch for the following, he said: national environmental organizations will continue to support market pricing to encourage conservation; the Northeast/Midwest Coalition wants to see prices raised; and the Taxpayers Union wants to raise federal power rates to offset other tax increases. Swift said restructuring legislation will be coming before the House. Will the decisions be made here or inside the Beltway? he asked.

Some interests have said if they don't get what they want, they will support the move to market-based rates, Swift observed. I urge folks to think about two things when considering their immediate self interest, he said: will you be better off competing with the rest of the West for the Columbia River? Will the environment be better off if the dollars from the Columbia River are used to reduce the deficit? Our low electricity rates have created thousands of jobs, Swift said, and the economy of the region could really be hurt if the wrong thing happens to the system. The system has created a billion dollars in conservation benefits and funded F&W expenses, he pointed out. These are the benefits of enlightened self interest, Swift said.

Our opponents today are stronger than they were, and our Congressional delegation is not as strong as it was in 1980, he said. "We can prevail if we find a way to unify," Swift continued. If we do not, history will judge our inability to work it out, to secure our birthright, "as stupid," he stated. Give Congress some unity to work with -- disunity is death in Congress, Swift urged. "We have something someone else wants -- they have tried to take it away before, and they will try again," he said. "What we have is worth fighting for," Swift counseled. Do we unite and fight for this resource or do we squabble and seek advantages until they take it away? he asked. May you have wisdom and flexibility as you take on this challenge, Swift said.

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Panel Two: Stranded Costs

John Elizalde, BPA, gave an overview of the risk management elements of the subscription proposal. Stranded costs fall within the risk management part of the proposal, he said. We have a stack of mechanisms for meeting costs, Elizalde explained, and the top tiers are a cost recovery adjustment clause of up to $100 million and a transmission wires charge of up to $25 million annually, which would be treated as a loan.

The proposal must stick to a fundamental principle, according to **Bruce Mizer, Alumax Aluminum**: customers who benefit must bear the costs and risks. It is unfair for customers to demand federal power if they are unwilling to bear the costs, he stated. BPA does not have stranded costs -- long term, BPA power will be a bargain, Mizer said, adding that customers are demanding power because it is a good deal, yet they want money collected from those who are "shoved off the system." BPA currently has large cash reserves, which indicates that current customers are paying their share of costs, he observed. BPA may have temporary cash problems, but a recent analysis shows BPA's costs will be far below market, Mizer continued. He described the risks to BPA in two categories: political risk, in which policies can increase costs and/or reduce power on the Columbia River; and traditional risk, which includes variations in system costs. Customers should cover the traditional risks, but if Congress takes actions to save endangered species, the taxpayers should pay for that, as they do in the rest of the country, Mizer asserted. BPA customers who continue to receive benefits should bear the risks -- those who don't receive benefits should not, he stated. And Mizer noted, there is no sound business principles behind the idea of collecting costs from former customers to keep rates low. "We don't like the wires charge," he concluded.

Steve Weiss, NWEC, said the proposal has to be measured against two standards: we must pay our bills to keep the benefits in the Northwest, and BPA must be able to operate like a business. The system has long-term value, he said, adding that "short-term greed" should not drive us to do things that entice Congress to take it away. Will the mechanisms do the job? Weiss asked. It is suicide for customers to pay below market, while limiting a cost recovery adjustment clause to $100 million a year, he said, and it is "politically unsustainable" to impose a transmission surcharge with subscribers paying below market power rates. We believe everyone in the region has shared in the system benefits, Weiss stated. A transmission surcharge is fair, but only if power rates have already gone up to market, he said. Weiss suggested that the Northwest does not want to send a message to the rest of the country that "we won't pay market, and we won't pay the costs" of the system. He added that the Transition Board's number for a wires charge is more reasonable than $25 million. "We would be appalled" if BPA gives subscription rights to customers who do not agree to pay stranded costs, Weiss stated. NWEC applauds the concepts in the proposal, but questions whether the mechanisms share the costs fairly or are robust enough, he concluded.

My perspective is that BPA does not have stranded costs -- it's financially healthy, stated **John Saven, Northwest Requirements Utilities**. The issue is future financial risks and who bears them, he said. Saven noted that during the past year, the Northwest Power Planning Council (NWPPC) produced an analysis that shows that BPA has great value under a wide range of circumstances; with low market prices, however, BPA could have negative net revenues under F&W scenarios involving additional costs or degradation of power production capability, particularly from 2007 to 2012. BPA's future risk seems to fall into two categories: weather and market-related price variations, and contingencies for system configuration changes that could make BPA uncompetitive, he said. Saven listed several mechanisms BPA has proposed for dealing with cost recovery and said he had come to five conclusions: BPA should be in a strong position to respond to circumstances in 2002 to 2006; BPA rates may be artificially high for contingencies that won't occur in 2002 to 2006 -- "that's too bad for consumers"; the transmission surcharge is too small, and it is unacceptable to put all risks for future fish mitigation on the backs of power customers; take or pay contracts for retail access load loss are financially unnecessary and shift too much risk to full requirements customers; and the proposal is silent about the rights of customers to leave at the end of the contract, without any assertions by BPA of stranded costs.

It makes sense for BPA to have contingencies, said **Pat McGary.** There are three fiscal years between now and the next rate period, he pointed out, and BPA is moving into these years with substantial reserves and the prospects of increasing them. We want to make sure that BPA staff members remain "cost hawks," McGary said, but whether or not the rate adjustment clauses trigger, it's important to establish that both business lines have the ability to collect costs. What BPA faces are financial risks in the future relating to fish, he stated. We don't know when or how much, and that makes it difficult for me to sign up and explain to customers why rates might go up, McGary indicated. Now we are seeing a possible increase above 20 mills, and I can see the possibility of prices at 28 to 29 mills, he observed. "It's scary to see the fish costs there," he stated. McGary urged BPA to reconsider increasing its reserves to billion dollar levels in the second rate period.

While we applaud BPA for managing for the uncertainty, we think it's healthy to reduce the uncertainty by developing and adopting a single, unified salmon recovery plan, according to **Karen Garrison, Natural Resources Defense Council** (NRDC). Since fish are involved in the stranded cost issue, we see the principles for fish funding as a step in the right direction, she said. It's very important how they are applied, Garrison added. She questioned the probabilistic approach BPA is using to come up with fish costs. It won't work if, for example, five of the options don't pass legal muster, Garrison suggested.

The Transition Board's proposal, which is being called "contingent cost recovery", is on the street, according to **Dick Watson, NWPPC**. The standard for a decision is not whether all elements are in line with BPA's proposal, but are they functionally in line, with the same principles and effect, he explained. There is an important difference between BPA's and the Board's proposals, Watson noted: if we have to put charges on transmission and customers are not paying market rates, its unfair and politically unstable. That is "the main disconnect" between the two, he said.

Comments and Discussion

Is the loan from transmission to be repaid with interest? Waldo asked. BPA staff said it was. A mechanism has not been identified for repaying the loan from transmission, Mizer observed, so you don't know if the customers who paid will be the same as those who receive repayment of the loan. With respect to the question of borrowing, you have to ask why aren't you borrowing from the power system, Paul Murphy said. Those with firm allocations of power are more anxious to see the risk "pushed off to nonpower customers," he contended. I come back to the premise that the reason we are debating this is because of WPPSS, according to Jeff Shields. We do not have a decommissioning plan, he pointed out, asking how you protect the accumulated reserves from encroachment by WPPSS for such a plan.

The $25 million transmission surcharge is an estimate, commented **Mary Hain, Enron**. BPA is establishing the opportunity to impose it and could later say it miscalculated, she stated. With an additional one mill, BPA could collect $100 million, Hain contended. She disagreed with the idea that across the country $25 million would be considered a small number. Across the country, they are responding to a different problem, but here we are talking about having a BPA that is fully subscribed cover fish costs, Hain said. We have no commitment that other nonsubscription products will pay their share, she added. The obligation for fish recovery was incurred when the hydro projects were built, Garrison responded. Everyone has enjoyed the benefits, she said.

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Panel Three: Conservation and Renewables

Terry Esvelt, BPA, said BPA wants to further the goal of meeting the Regional Review recommendations on conservation and renewables. The proposal should not be seen as a substitute for state action, he added. The principles behind the proposal are to stimulate a large amount of voluntary participation, develop a simple structure, and combine BPA oversight with real accountability, Esvelt stated.

The proposal is "darn good," according to **Sara Patton, NWEC**. In particular, she commended the proposal for a rate discount for conservation and renewable investments. Our resources are disappearing, and we have a statutory obligation to be working on clean resources, Patton stated. The NWEC "scorecard" for public purposes shows most utilities have not met the Regional Review's recommendation, she said, adding that utilities have to get back to these activities. Patton recommended that BPA power contracts be conditioned on meeting the region's conservation and renewables goal. NWEC proposes the rate discount be 3 percent for a 3 percent investment in conservation, she said. It would be fair and would leverage BPA's dollars, Patton added. Under the formula, a utility with $100 million annually in retail revenue would spend $3 million on conservation and get a credit of $1.5 million, she explained. The Regional Technical Forum is a good idea, Patton said, and she urged more attention be given to conservation for large customers.

You've done a good job with this section, **Jim Sanders, Benton County PUD** told BPA. The states, BPA, and customers should view these efforts as a complement to what the states will do -- it doesn't supplant the states, he stated. The program design should be simple, flexible, consistent, and give certainty over the rate period, Sanders continued. The programs should require minimum oversight by BPA, he added. The CARES contract is a good model to follow, Sanders recommended. We need to have certainty that the rate discount will be available since projects can take several years to complete, he explained. Sanders suggested that any funds left over at the end of the rate period be used to pay down BPA's conservation debt. The measure for accountability has to be something other than just a percent of revenues, he urged, adding that if a utility can do conservation with no cost to other customers, "we should get credit." We ask you to trust us -- we will act in the best interests of customers, Sanders concluded.

One of the purposes of the Northwest Power Act was to establish a hierarchy of resource acquisition, according to **Angus Duncan, Columbia/Pacific Institute**. Conservation and renewables "have had a rocky time," he said, describing how the region has been backing away from such investments. The Regional Review shifted the responsibility to the states, but only Montana has responded, Duncan said. The "rock bottom" for conservation was the Cost Review, he continued. The Cost Review panel decided if BPA's competitors did not have to do it, BPA should not, Duncan said. They heard from the region that BPA is not just another utility, and the Northwest Power Act says conservation is at the top of BPA's public purposes, he explained. There are many rationales for BPA to do conservation -- the environment is the most important, Duncan concluded.

The Regional Review did call for state action, but foresaw that the states would respond unevenly and on their own time schedules, **K.C. Golden** said. The job still needs doing, and I commend BPA for stepping up to that, he stated. The Regional Review did call for federal backup to state action to keep the region going forward, Golden explained. This proposal has the potential to meet the Regional Review recommendations -- it kicks the action to retail utilities, he stated. Golden said it was fitting that while part of the day was spent arguing about allocation, another part was spent talking about how to get more work out of the system. The importance of this part of the Regional Review has not waned; it is even more important with a shortage, he concluded.

Randy Berggren, Eugene Water and Electric Board, called the proposal a good one -- BPA has established some "middle ground." BPA should stick with requiring a 3 percent of revenue investment for the rate discount; if anything, it should be higher, he suggested. From my experience, it is doable, Berggren said. EWEB invests 5 percent of gross revenues, he reported. It is something you commit to do and make happen, Berggren added. I see this as a complementary effort, and I support BPA going forward with this, he concluded.

The Montana legislature mandated both a floor and a ceiling of 2.4 percent for public purpose investment, **Debbie Smith, NWEC**, stated. The BPA proposal does provide some regional accountability in a reasonable way, she said. The Regional Technical Forum is a good idea -- it needs to happen in order for the region, including Montana, to meet the goals, Smith said. Something that has been an issue in Montana is the extent to which past investments in conservation can qualify toward the percent of revenue goal, she reported. That is not what the Regional Review intended nor what BPA should allow in qualifying for the rate discount, Smith stated.

The incentive is "a great idea" -- BPA has provided leadership, according to **Rachel Shimshak, Renewable Northwest Project**. This is consistent with your mission and fits within the law, she added. I learned from the Regional Review that we need to do this in a way that does not come at a competitive disadvantage and that allows for local control, Shimshak commented.

We all ought to see how the region responds to the 3 percent set out in the Regional Review, **Bob Hoppie, Idaho Department of Water Resources**. Deregulation has had a lot of study in Idaho, he said, but it's unlikely the legislature will take action on it this session. I'd say it may take two or three years, Hoppie added.

Comments and Discussion

A participant from Seattle City Light suggested that the new measures look like "one size fits all." Why not let a utility decide what works? he asked. He suggested that rather than establishing a percentage of revenues for utilities to invest, the region come up with a savings goal like 15 percent energy savings every 10 years. It is important to establish targets for savings goals which reduce pollution and greenhouse gases, he stated. Al Canada suggested there be a mechanism to get rid of excess energy by selling it or loaning it to BPA. There needs to be a mechanism for someone "who goes all out for solar and wind energy," he said. **Paul Locke, citizen,** said conservation should be an individual responsibility. Utilities should be figuring out how to generate with less energy, he said.

I'm concerned about the tradeoff between dollars and megawatts as a way to measure, Patton said. If we can find another way to measure, great, but dollars are the simple way, she stated.

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Panel Four: Fish Funding Tools

About a year ago, we felt the need to get going on fish funding, according to **Paul Norman**. We tossed out ideas and came up with "keeping the options open," he explained. Norman outlined the principles for funding fish that BPA adopted as guidance through the subscription and contract process. We have lots of tools for meeting risk, and we have combined them into a package we think meets the fish principles, he said. We need a unified fish plan so that in the future, we know what our obligations are, Norman added.

We ought to have a goal, a plan, a budget, and a way to evaluate, according to **Tim Stearns, Save Our Wild Salmon**. And we ought to have some glue and some unity, he added. BPA's fish and wildlife principles are "a new beginning," Stearns said. The Administrator has said BPA will accept its fish obligations, he said, thanking the agency for hearing the call that a "fish cap" would not do the job. Stearns said he thought the proposal, while imperfect, could be fixed. When I look at this package, I ask can it restore salmon and also respond to changes in water conditions and markets, he continued. We need to have something in this package that will save salmon, Stearns said. He listed several questions: should this package be designed to cover all 13 options? If we don't cover the costliest option, have we covered them all? Can we solve this in the region, or do we need outside intervention? In 1999, we will have a solution, Stearns concluded.

BPA was between "a rock and a hard place" with subscription and the fish funding issue, said **Rob Walton, Public Power Council** (PPC). I'm really frustrated with this process, he stated, adding that the region may have "painted itself into a corner" in having to choose between clean resources and salmon recovery. I believe the power industry would be willing to spend more, but there is an obstacle, Walton said. It's not the half billion dollars, it's that the program has not produced results, and it's a program that appears to be "the opposite of good government," he stated. Walton pointed out that fisheries policies over the years have contributed to the demise of the salmon. There are inconsistencies in the approaches, he said, adding that 19 agencies have been unable to come up with a plan that works. Walton acknowledged that BPA and the customers have been part of the problem, and the environmentalists have found it easy to go after BPA as "the deep pocket." We need desperately a plan that works, he said. If customers think they can "just say no," they are probably wrong, Walton continued. He contended that the region has not set priorities for fish mitigation activities, and that puts BPA in the position of not being able to fund a successful approach. If the region comes up with a program that works, customers will probably go along, but not without a program that gets at the job that has to be done, Walton concluded.

The "obvious, first priority" is to come to a single, unified recovery plan, according to **Jim Baker, Sierra Club**. The F&W principles are a historic first step -- BPA has agreed to meet the responsibility for recovery, regardless of where the path may take us, he said. But I implore the agency to look at an analysis of whether $520 million a year will meet the needs, Baker urged, suggesting the amount might not be enough. These are great principles, "now show me the money," he stated.

I'm concerned that the fish-funding element "is a bridge too far," stated **Steve Waddington, Reynolds Aluminum**. Keeping all of the options on the table has raised expectations about what is affordable and sustainable, he said. BPA "asked the fish advocates for their favorite plans and then wracked up the costs" -- that's a bridge too far, Waddington contended. We need goals, a plan, an adequate amount of money, and to hold those responsible accountable, he stated. Don't put money in the bank for keeping the options open until we have the right plan, Waddington urged.

I'd echo the need to develop and implement one restoration plan, **PPC attorney Shelly Richardson**, said. She questioned whether the proposal was based on "sound business principles and good government," pointing out that planning to meet a range from $438 million to $721 million and collecting a billion in reserves fall short of the definition. I've heard about aligning risks and costs, but why immunize some customers from meeting an obligation that belongs to all customers? Richardson asked. She called for a sound, basinwide program on which BPA's contracts and rates can be predicated.

I'm pleased to see the principles and an explicit commitment to meeting the F&W obligations in the 1999 decision, stated **Tom Stuart, Idaho Rivers United**. He added a couple of cautions. I remain concerned about the amount of power we intend to subscribe, Stuart said. We have to acknowledge the potential elimination of some resources, he stated. The probabilistic approach to calculating the risk is also problematic, Stuart said. All options are not equally likely to be chosen or equally cost effective, he pointed out, and some have little chance of standing up to legal scrutiny. Contract and rate mechanisms must account more fully for the higher-cost options, Stuart said, adding that there could be a mechanism for a rebate if the costs don't materialize. We need to advocate for salmon recovery -- I can't imagine the nation will accept our low rates in the absence of salmon recovery, he concluded.

People are saying we need one plan based on goals, results, and accountability, according to **Alex Smith, BPA**. We've made major steps forward with the principles, she said, and I think we've learned a lot listening and talking to each other. It's important to have unity on the power side, Smith added, and it's equally important on the fish side.

I've heard a common thread here, **Dave Geiger, Corps of Engineers** said. One plan would solve lots of the problems we have with operations -- we spend millions of dollars and then the direction can change, he pointed out. Geiger suggested it would be naive to think that some of the major decisions will be regional decisions. There are other players "who play in a bigger arena than this," he said, referring to the need for Congressional authority for some of the proposed actions.

I am a cynic that one plan will solve all of our problems by the close of business December 31, 1999, **Angus Duncan** said. He said BPA needs to develop a risk management strategy for the situation in which the market is down and the fish costs are high. You need to develop maximum capability to meet the most difficult circumstances, Duncan advised. This is a cash flow issue, he continued. You have to be able to move cash around from year-to-year, Duncan said. There is a pre-condition for exercising a Treasury deferral, he suggested, and that is that BPA be able to market power at market prices and that customers be willing to pay up to market. It's a matter of moving the revenues from when we have them to when we need them, Duncan said.

Comments and Discussion

There is no certainty in salmon recovery, stated **Cyrus Noe, NewsData Corp**. A planned approach is necessary, but we need objectives that are consonant with recovery, he stated. We talk about this as though we can throw money at it and that will bring back salmon -- that assumption "needs a sobriety test," Noe asserted. **A participant from Seattle City Light**, said he was concerned that a comprehensive fisheries plan would "set things in stone." Whatever plan you come up with, you have to be flexible as things evolve, he stated.

Are the tools you see in this proposal sufficient for keeping the environmental community from "this horrible Northeast/Midwest alliance"? Patton asked. We are looking to see if we can be part of the regional plan, Stearns responded. What we mean by plan is spending money wisely, meeting schedules, and so on, he said. BPA has said it will fund up to what it takes to recover fish, Stearns said. They are as tired of fighting as we are, he added. Stearns pointed out that the 13 recovery options were developed with the Corps and other agencies involved. Don't think of these things as "fish nirvana," he cautioned. We have found that barging and trucking won't recover salmon, Baker said. Only a healthy ecosystem will do it, he stated. The Sierra Club wants to be part of keeping the benefits in the region and those benefits include salmon, Baker said. If we have to go to the Northeast to get what salmon need, "we will," he stated. My bottom line is an adequate budget from BPA and a salmon recovery plan based on what independent scientists say, Baker concluded.

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Panel Five: Governors' Representatives

On behalf of the Transition Board, **John Etchart of Montana** began, I'd like to urge you to "keep your eyes on the big picture": will the BPA package meet what we want and be sustainable politically to enable the Federal Columbia River Power System to deliver benefits. The Transition Board thinks this is "a pretty darn good proposal" -- spreading the benefits in the region is necessary and this moves in that direction, he stated. Etchart said the package needs to respond to uncertainty, make a commitment to conservation, and meet the needs of a variety of customers, including rural customers. This proposal does, he stated. Various partners see this proposal as getting to equilibrium, Etchart said. Before BPA "goes dark" to make its decision, we urge you to settle every issue that can be settled, he said.

I want to reinforce what John said, added **Todd Maddock of Idaho**. Water is the fuel that drives the engine in Idaho, he said. Our fishermen are interested in having fish that are harvestable, and that's critical, Maddock stated. A large percentage of the rural customers in Idaho depend on BPA, and we take the proposal very seriously, he said. Maddock said the proposal captures the spirit of the Regional Review -- it spreads the benefits around the region. You've addressed conservation appropriately, as well as the Cost Review, he observed. Maddock noted that he is concerned about transmission. We need an independent system operator in the region to enable open access with transparent rates, he urged, adding that the region needs independent judgment about the separation of transmission and power generation.

John Savage of Oregon said his state wants federal power distributed widely and restoration of fish runs. I'm concerned about the power allocation, he stated. In a speech to the co-ops, Oregon's governor said he wanted as many Northwest consumers as possible to benefit from the federal power system, Savage said. Some features of the proposal are in sync with that, Savage continued, but we expected a larger amount of the benefits to be going to residential consumers. Fixing the amount of power these consumers have access to is inconsistent with what the governor wants, Savage suggested. This does not mean there should be no allocation to the DSIs, he stated. The proposal addresses well the conflicting goals we have for the system, Savage concluded.

Marilyn Showalter of Washington said by being "pretty good" in a number of areas, the proposal may be a "great" effort toward unifying elements in the region. You've had to unify the short and long run, stay within the laws for power and the Endangered Species Act, balance a range of possible market conditions, and address the regulatory environments, she pointed out. "You've done a masterful job of an impossible job," Showalter stated. There is uncertainty about the post-2006 period -- we don't know how it will play out, and we need a plan and a philosophy that are flexible so we can meet the realities, she said. Before we can look that far forward, we have to get through the next five years, Showalter said. I'm encouraged there will be a package that BPA, the governors, and the stakeholders support, she stated.

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Concluding Comments and Remarks

We have a threshold question about when subscription will go forward, Eachus pointed out. Will the Transition Board sign off on BPA's proposal? he asked. The Board has a political role, Showalter responded, and BPA has the legal authority to enter a subscription process. The expectation is that the Transition Board and BPA proposals will merge, she said.

There is a statutory obligation to the IOU residential and small farm customers, and I don't think you've met that, stated **Joe Quintana, Puget Sound Energy**. A fair proposal should not allocate to the DSIs, he said, adding that after the preference load is served, every megawatt the IOU residential and small farm customers do not get, is a measure of falling short of the goal. We understand the pressures facing BPA and the region, and we are willing to negotiate, Quintana said. BPA should offer the IOUs the same service it is offering to others, including the "slice of system," he stated. With fair treatment, Puget Sound Energy will actively engage its 1.2 million customers in support of BPA, Quintana concluded.

In his wrap-up remarks, Waldo noted that he has worked on water issues in California and has heard it suggested that Congress should redefine preference to mean not just the Northwest, but the entire West Coast.

This conference is the opening of a dialogue, Johansen said in closing the day. Useful observations were made, she added. We could not anticipate all of the nuances of the proposal, and you have brought many to light, Johansen observed. Over the next 30 days, we will keep up the dialogue with you -- we will get closer on the issues, she stated.

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