

Bonneville Power Administration
Long-Term Regional Dialogue Workshop
June 8, 2005

Rates Hearing Room, BPA Headquarters, Portland, Oregon
Approximate Attendance: 60

Workshop handout is posted at: <http://www.bpa.gov/power/pl/regionaldialogue/announcements.shtml>.

Welcome

Paul Norman (BPA) opened the meeting and reported that Steve Wright would join the group later to make introductory remarks. We are getting close to the date for putting out our Long-Term Regional Dialogue proposal, and we want to be sure it is as well informed as possible, he began. For this meeting, we've put together a panel with representatives from the major stakeholder groups; the panelists will ask questions of the presenters, and the audience will also have an opportunity to ask questions, Norman said. We want this to be a dialogue, he stated.

The purpose of the workshop is to be sure "we have the best possible intelligence" from everyone about the issues in the Long-Term Regional Dialogue proposal, Norman said. We'll take proposals from others until June 13, and then "we will close the door and take our best shot" at a proposal, he explained. "We don't have quite the degree of consensus that we'd hoped for by now," and we considered whether we should keep moving forward or wait while regional discussions continued, Norman said. Our conclusion is that we should not wait, but instead, "we should keep plowing ahead," he said. We concluded that the most helpful thing is for BPA to put out "a policy bogey" – we'd have to get a big pushback on that to change course, he added. What we release in July will truly be a proposal, not a decision, Norman stated. Our final decision may look nothing at all like the proposal, he said.

BPA Administrator

BPA Administrator Steve Wright told the audience BPA is involved in multiple big issues at the moment – fish and wildlife (F&W), 2006 rates, 2007-2009 rates, Grid West, TIG, integrating wind, and a major construction project. Yet of all these things, Regional Dialogue is the biggest thing we have going on, he stated. The Regional Dialogue aims to secure the benefits of the federal hydro system for the long term and to structure the industry so we can develop cost-effective, environmentally responsible resources for the future, Wright said. This process gives us the chance to make a difference and "create a great legacy," he said. In the Regional Dialogue, we are defining the disposition of 40 percent of the region's hydroelectric resource, and we have the opportunity to build on the legacy of the hydro system to create a legacy of our own, Wright said.

As you prepare your positions and comments for the Regional Dialogue, I'd like you to keep in mind the following questions, he continued. In the future, will we all describe

with pride the role we are playing in this? Will the history books look kindly on us? And does this serve the public interest? We have a hydro system that is “the envy of the rest of the world,” Wright stated. As we go forward, think in terms of the legacy we are creating, he concluded.

Background

Norman continued with “a refresher” on why BPA is engaged in the Regional Dialogue. We have contracts with customers until 2011, so why spend time on this now? he asked rhetorically. Norman offered several reasons: we need to make decisions about infrastructure development; we need to limit BPA’s and utilities’ costs and risks; and we need to create long-term certainty for utilities, customers, and the U.S. Treasury. Customers have told us they need clarity so they can run their businesses, and we think we need to move forward to provide that, he stated.

The long-term policy direction established in the February 2005 Record of Decision (ROD) was to limit BPA sales of firm power at the lowest cost-based rates to the firm capability of the existing federal system, Norman said. Additional service would be provided at a higher “tiered” rate, and this policy would be implemented in long-term contracts and rates, he explained. Norman listed a number of long-term policy choices BPA is addressing in the Regional Dialogue: such as how much power each public utility is allowed to purchase at BPA’s lowest cost-based rate; how to provide customers with more stability and predictability about costs that go into rates; the ability newly formed publics will have to purchase power at the lowest cost-based rates; and the power products to be offered.

With regard to residential and small farm customers of IOUs, the long-term choices include how to provide Residential Exchange benefits that are both equitable and consistent with the law, he went on. The exchange is part of the law, “but implementing it has always been contentious,” Norman commented. Another long-term choice is the benefits to be offered to the DSIs after 2011, he said.

Resource adequacy standards are another issue, and we need to decide whether to include any requirement to meet them in new BPA power contracts, Norman said. Cost controls and dispute resolution are other long-term issues, he said. Customers need to have confidence the costs they pay in rates are as low as they can reasonably be, and we need to have a mechanism to resolve disputes fairly, Norman stated.

There are long-term policy choices related to conservation and renewable resources as well, he continued. These include the approach to be taken to ensure development of cost-effective conservation in the load BPA serves and the support for renewable resource development, Norman said. There are also issues related to transfer service, which gets power transferred to BPA customers over third-party lines, he said. “It’s a key piece of the puzzle” that BPA will address separately from the July proposal, Norman said.

Norman went through the steps in the schedule BPA has set for resolving the long-term policy issues, beginning with the June 8, 2005 workshop and ending with the earliest planned effective dates for new contracts in October 2008. He noted that BPA would appreciate getting input on the full range of Regional Dialogue issues. When you submit your proposals, it would be most helpful if you could explain your point of view on all of the issues and how to tie them all together, Norman said.

Nancy Hirsh (NVEC) recommended BPA think about getting “beyond this room” with its July policy proposal. “These issues are tough for people to grasp,” she said. If this process is going to set the direction for the next 20 years, “we need to access more people” and figure out a way to communicate more broadly, Hirsh advised.

Council View

Jim Kempton provided an overview of the Council’s recommendations on the future role of BPA in power supply. The Council incorporated recommendations into its Fifth Power Plan, he explained. Kempton pointed out that the Council agrees the time to resolve the issues is now. We have urged BPA to make decisions about its long-term role that will permit offering new contracts by October 2007 in order to provide customers with the certainty they need to go forward on resources, he said.

Kempton read through a list of goals the Council believes should underlie the BPA role, including preserving and enhancing the benefits of the Federal Columbia River Power System (FCRPS) for the Northwest and achieving an equitable sharing of benefits. The Council recommended BPA sell electricity from the FCRPS to eligible customers at cost and if additional power is requested, to have customers pay the additional cost of providing it, he said. We recommended the change in BPA’s role be implemented through long-term contracts, Kempton said. The Council made clear that the change does not alter BPA’s responsibilities to serve the load of qualifying customers, acquire cost-effective conservation, and carry out the Council’s F&W program, he stated.

The Council believes a clearly articulated and durable policy regarding BPA’s future role must guide new contract negotiations and future rate cases, Kempton continued. Among other recommendations, he said the Council doesn’t believe legislation should be considered unless there is broad regional support, including consensus among the Northwest governors. Kempton recounted a caution from one of the region’s Congressional representatives against going to Congress without BPA, the Council, utilities, environmental advocates, and every other entity on board with what is to be proposed. Otherwise, given the Northeast and Midwest coalitions in place in Washington, D.C., the outcome would not be what we intended, he said.

Kempton conveyed the Council’s support for long-term contracts, and he noted the need to address product issues, including Slice. With regard to the DSIs, the Council said if a DSI has been a responsible BPA customer, there might be an opportunity for providing a limited amount of power for a limited time, he reported. Kempton said the Council supports resolving the questions around IOU benefits. A settlement must provide clarity,

and he pointed out that providing the benefits in the form of power could be more risky for BPA and could make the allocation of power more difficult. With regard to conservation and renewables, the Council stated that it expects BPA and the region's utilities to continue to acquire the cost-effective conservation and renewables identified in the Council's power plans – to the extent utilities can meet the objectives, BPA's role could be reduced, Kempton said.

Resource adequacy is a major issue if utilities are to bear more responsibility for meeting future load, he continued. The Council is concerned about the possibility that a severe deficit by one utility could have detrimental affects on other utilities in the region, Kempton said. The Council is committed to working with others to ensure that adequacy policies are in place, and the Council believes such policies need to be in place by the time the new contracts are signed, he said.

The Council has tried hard to reflect the interests of the region in its Power Plan, Kempton wrapped up. He said the plan was developed with the intention that it could be readily updated and remain a living document. We can use things in the plan to meet the objectives Steve Wright talked about and preserve the benefits of the FCRPS for the region, Kempton concluded.

Norman thanked the Council “for pushing us along on these issues.” He also thanked the panelists and introduced BPA's Regional Dialogue staff.

Public Power Panel

Public Power Council: Kevin O'Meara kicked off the public power panel with a reminder about “the fundamental problem we're trying to solve.” The last few years “have not been pleasant,” and the question is whether we can refashion a business relationship with BPA that leads us to a more positive place where we can avoid “Titanic confrontations,” he said. BPA has historically done some things well, including operating the transmission system and marketing power from the hydro system, O'Meara stated. But BPA has not done so well with acquiring resources – “there have been flaws” in the way that has been done, he said. The question is what can we do to change that, O'Meara said.

One way is to separate the responsibility for meeting load growth from BPA and place it with the customers, he continued. Having more decision makers involved limits the size of potential mistakes and encourages learning as we go forward, O'Meara said. He reiterated the need for certainty and durability in BPA's future policy and said customers need to know what resource they are getting at what cost. You also need cost predictability around that “bedrock resource,” O'Meara said.

BPA's open-ended obligation to serve load has contributed to the unpleasantness of the last few years, O'Meara said. He suggested that a change in role could bring BPA a defined set of new responsibilities.

PNGC Power: We strongly support PPC's allocation approach, and we appreciate BPA considering it, according to Joe Nadal. The approach will reduce BPA's risk and provide planning certainty for the region, he said. BPA should provide contracts to support the allocation, and the Slice product seems best suited for doing this, Nadal said. Slice should be strengthened, and other products should also be adjusted and strengthened to support allocation, he said. We have been working on allocation for a year, and we can now say, "it will work," Nadal stated. We may need more work to match up net requirements and the base allocation, he acknowledged.

The focus for beginning allocation should be 2012, Nadal went on. Customers want their current contracts to run their term, and there would be problems with trying to operate parallel contracts – it could prove difficult and there could be inequities, he said. BPA should define the allocation procedure soon and negotiate contracts, Nadal recommended.

He went over a list of concerns about the long-term issues, including the ability to switch products and mechanisms for undeclaring resources. The residential exchange also has to be settled; it's incompatible with an allocated system, Nadal said. Other considerations to be worked out include cost control and dispute resolution, he said.

Nadal suggested Congress may have to sanction the final contracts, or there may be a need for "focused legislation." With regard to resource adequacy, it's appropriate to visit the issue, but don't put an adequacy standard in the contracts, he recommended.

Northwest Requirements Utilities: There is "a lot of momentum" on the part of the full requirements customers to support a long-term role for BPA, according to John Saven. But we need the federal system to continue to operate as "an integrated whole," and we want contracts with room for load growth, he said. NRU has been working with many others on these issues, Saven said. We support the PPC framework – it's an approach that would work and would be good for the region, he stated. There are still a lot of details to resolve, Saven acknowledged.

One of our interests is that in long-term contracts, we have protection to assure that cost-based rates are preserved, he said. We want a product that reflects the embedded costs of the system, and we want a load-growth mechanism at "vintage rates," Saven said. He also suggested full requirements and simple-partial requirements customers should be allowed to pool to meet load growth. Customers want to have the ability to choose among products and the ability to choose to go elsewhere, he said.

We need to assure that cost control "is memorialized in the contracts" and that it is enforceable, Saven continued. Nearly half of our utilities receive power through General Transfer Agreements (GTAs), and as we move toward allocation, we don't want those customers to be penalized for the arrangement, he said. We expect to see something for new publics – the policy needs to recognize them, Saven added.

The residential exchange issues need to be resolved, he said. The IOU exchange customers have rights to the benefits, and those benefits going forward should be financial, not power, Saven said.

With regard to DSI service, NRU advanced a proposal that would preserve the existing jobs in that industry, he said. We are concerned that BPA and the DSIs have not reached an agreement, Saven commented.

We need to be involved in BPA's business, and we feel we have to have meaningful input for cost control, he said. We also need to take a look at off-ramps if costs are not controlled, Saven concluded.

Power Resource Managers: Rob Sirvaitis listed the advantages to allocation: establishes BPA's obligations, aligns BPA customer interests, exposes all to system risks, places decision making with local entities, facilitates long-term contracts, maintains low-cost FCRPS without dilution, puts obligation to pay for load growth on utilities, assures 100 percent of resource stays in Northwest, requires segmentation of costs and cost control, and reduces risk to BPA and the Treasury. An allocation approach should not be defined in the rate case process – that is short term and does not resolve the uncertainties, he said.

Meaningful cost control is important and essential, Sirvaitis said. The Power Function Review did not fulfill cost-control objectives – customers have to be involved in cost decisions, he said. It would be extremely helpful to have a customer advisory group that is involved in cost control, Sirvaitis recommended. We need a mechanism, like the binding arbitration in the Mid-Columbia contracts, he said. Contract durability and enforceability are key, and they must be binding on both BPA and the customer, Sirvaitis stated. We have to be clear about each party's rights and responsibilities, he said.

Washington Public Agency Group: Terry Mundorf said his organization is diverse but there is “a center of gravity” around some Regional Dialogue issues. “It is fair to say that WPAG strongly supports the PPC allocation proposal,” but that support would evaporate if the proposal is substantially changed, he reported. We would not support a tiered rate approach that allows for changes in the embedded cost resources or in the line between tiers as part of a rate proceeding, Mundorf said.

We have had some good discussions with BPA, but the conversations have been opportunities to seek solutions and that has not happened, he indicated. With regard to cost control and enforceability, allocation brings these issues to center stage, and we have tried to establish an enforceable division between embedded costs and new resource costs, Mundorf said. “We have heard back a flood of reasons from BPA about why the status quo should not be changed with cost control,” he said.

That hasn't helped solve the problems, “so the conversation on cost control has petered out,” Mundorf said. “We have gotten less response on enforceability” – there has been no dialogue, he said. We have not had a dialogue yet on the residential exchange, public or private; exchange has serious implications, so that needs to happen, Mundorf said.

Overall this is not a good circumstance and does not bode well for the future, he said. In Subscription, we ended up with a result that did not have wide support, and we are still in litigation over it, Mundorf stated. We want to change the way BPA does business, and we need a regional consensus on it, he said.

We are basically trying to amend the Regional Power Act by regional consensus, Mundorf went on. We need to create a process where there is real dialogue and where everybody comes to the table and makes compromises, he said. I would add something to Steve Wright's questions, Mundorf concluded: what is each of us willing to give up to reach that good conclusion Steve referred to?

Q&A

One problem I see is the complexity of the contracts BPA offers, Jack Speer (Alcoa) stated. If we continue with this "Chinese menu" of offerings, our problems will continue, he said. Has there been any talk about more simplicity? Speer asked.

Yes, there has been discussion, Sirvaitis responded, indicating the allocation proposal is relatively simple: public customers would get a base product allocation with the associated costs. That would be it for Slice customers, and others may need other products, he said.

We've had differing arrangements between BPA and its customers since 1978, Mundorf answered. If making things simpler is the goal, it is doable, he said. But finding one product that all customers will buy is unrealistic, Mundorf added. People are used to having contracts that are more tailored to their needs, he said.

There is diversity among customers and demand for different contracts, but we could have three or four basic contracts, Saven said. Some of the problem comes with terms in the contracts for disputes and arbitration – we need a consistent contract approach on those things, he said.

Nadal suggested that simplicity could be found if the allocation is made as a percent of the system and Tier 1 costs, rather than a number of megawatts. The only thing that would be at issue is who puts new load growth on BPA and how that is handled, he said.

And you could make this work with the concept of net requirements, Speer wondered.

Simplicity is good, but the flexibility of the hydro system has made it possible to offer what customers need, O'Meara pointed out.

Norman said he did not feel Mundorf's characterization of BPA's engagement on the issues was fair or accurate. A dispassionate look over the past several years shows that BPA has listened and responded, he said.

Subscription fell short of success, Mundorf replied. I'm suggesting we need "to take the blinders off" and try to do better, he said. If we don't engage on these topics and try to find proposals we can all support, we won't be successful, Mundorf stated. "We ought to try to do this right this time," he said.

What about a set aside for new publics? Scott Brattebo (PacifiCorp) asked the presenters. Should new publics that need power from BPA pay a melded rate? he asked.

Public power has not made a proposal on new publics, Saven responded. But over 20 years, there needs to be limited access, he said. I expect if there were a nominal amount for new publics, my members would support it, Saven said.

Mundorf acknowledged the dilemma raised by new publics: if you give them power at full incremental cost, "you drive them to the exchange." It isn't a simple question, he said. There is also the question of the legality of charging incremental rates if BPA has power available, Mundorf said. There are consequences of any approach, he added.

I have not heard anyone address "the notice period" that would be required for a new public, Kay Moxness (Central Lincoln) stated. It would be easier to discuss this topic if that were known, she said. We talk about the responsibility of serving new publics, but new publics also have a responsibility in terms of the notice period, Moxness said.

There are no publics participating in the exchange now, although some would likely qualify for benefits if they were to apply, Mundorf said. When we talk about the need to deal with publics that have a resource mix that might qualify under the exchange, it's possible with the existing publics "to do the math and come up with something" on cost, he said. But for new publics, that's more problematic, Mundorf said.

Who would be responsible for conservation and renewables acquisitions under your proposal? And what would be BPA's role? Hirsh asked. Saven said he hoped there could be partnerships between BPA and customers on conservation and renewables. But at the end of the day, it would be utilities' responsibility to meet the targets, he said. I agree, O'Meara said.

Kim Leathley (BPA) asked about the risk in getting obligations set now for contracts that wouldn't take effect until post 2011. I acknowledge there is risk, but I think we should push ahead, Nadal responded. My sense is that having two sets of contracts running in parallel would be complicated, he said. We now think BPA will have sufficient resources for longer than originally forecast, but because of the lead time required for new resources, we have to plan early, Nadal said. I agree we should get things resolved as soon as possible to give people as much lead time as possible to plan, Saven agreed. It would be very divisive to have two sets of contracts operating on two sets of financial terms, Mundorf added. "It would be mayhem," he said.

What about the BPA role in conservation and renewables? Brattebo asked. If people are relying on BPA for incremental power supply, it makes sense for a centralized program,

Mundorf said. But if the BPA role changes, it raises the question about whether there should be a centralized program, he said. With “a paradigm shift” in BPA’s role, we’d have to consider what makes sense, Mundorf said. There would be a role for BPA, but it would be different, he added.

Steve Oliver (BPA) asked about the public power view on amending the Regional Power Act. Are you looking for a regional consensus to amend the Act or for consensus on a different way, “a more innovative construct,” to implement the existing Act? he inquired.

If we can achieve regional consensus that does not require legislation, that is a desirable outcome for my members, Saven replied. As we talk more about cost control and separation of costs, it will become more clear whether we need legislation – that issue is still in play, but “my constituency is skittish of going to D.C.,” he said.

Mundorf pointed out that allocation is clearly not contemplated in the Regional Power Act, and that the legislation is replete with references to melding. “You can get there” without legislation, but it requires a consensus, he stated. The “bedrock” of our proposal is a change in the way the Act intended for people to behave, Mundorf said. If we are going to make that big of a change, we ought to know that people are amenable to it, he stated. Some people have already concluded that getting cost control and enforceability without legislation isn’t possible, but I haven’t concluded that yet, Mundorf added.

Regional consensus means, first and foremost, BPA, Mundorf continued. If we don’t get agreement on things from BPA, consensus is not possible, he said. Consensus doesn’t mean unanimous agreement, but there has to be enough agreement to say that “the bulk of customers and constituencies are on board, and we can demonstrate that” – that’s the test, Mundorf concluded.

Constituent Panel

Renewable Northwest Project: Rachel Shimshak said her organization’s proposal from a couple of years ago still stands. “It’s good, we still believe it,” she said. BPA is not your average utility, Shimshak went on. BPA has public purpose responsibilities that include conservation, renewables, and F&W, she said. Without the stewardship role, BPA would be like other utilities, but it is not, “and we want it to stay that way,” Shimshak stated. We want to find a way to continue the responsibilities, she said.

BPA should look at its stewardship responsibilities over the long term, Shimshak advised. We should look to the future and do what is best for the public interest, she said. We need robust investment in conservation – it’s the quickest, cheapest, and safest investment in resources, Shimshak said. We are blessed with a large potential for renewables in this region, she said. These resources have great advantage, and we hope to see their continued development, Shimshak stated. In the short term, BPA has had a budget for these resources and has continued to develop them, she said. While some utilities have a good record in conservation and renewables, others have none, Shimshak said. She said Hirsh would lay out specifics of a constituent proposal.

Northwest Energy Coalition: Our recommendations are built on the premise that BPA isn't a passive supplier of electricity with no obligation to develop and support acquisition of energy conservation and renewable resources, Hirsh stated. Our preferred option for allocation is that access to Tier 1 be conditioned on customers meeting their share of the Council's conservation target and making investments in renewables as they need resources, she said. This would ensure that as BPA transfers the obligation to serve new load to utilities, it would also transfer its conservation and renewables obligation, Hirsh said.

Alternatively, BPA would acquire conservation and renewable resources as part of Tier 1, and utilities would have their allocations decremented as they achieve energy savings and add new renewables, she said. This would assure that everyone is benefiting from the conservation investment, according to Hirsh. She listed ways BPA could handle the decremented power, including increasing Tier 1 allocations proportionately, selling it and crediting the revenues to Tier 1, crediting the revenues to the utility decremented, or some combination of the latter two.

With regard to load growth, BPA should meet it first with conservation and renewables, Hirsh said. She said BPA should not be providing fossil fuel resources to its customers. Tier 2 should be "an all green product" that is sold at cost, Hirsh suggested.

Transferring the responsibility for new resources poses risk, and once the region has developed a resource adequacy standard, it should be included in customer contracts as an enforceable provision, she continued. The commitment of BPA's staff to provide cost information has improved, and the Coalition has participated in various cost control forums, Hirsh said. Continuing the forums is vital, but we do not support a customer-only panel with decision-making authority over BPA costs, she stated. As for DSI costs, we previously submitted a proposal – it's in the record, Hirsh wrapped up.

Citizens Utility Board: Development of the federal power system has affected everyone in the Northwest, according to Bob Jenks. As we talk about allocating the benefits of the system, all of us are affected by it and all of us should be considered constituents, he said. Our first desire is to have the residential and small farm customers of the IOUs treated as constituents, Jenks stated. He reported that the Oregon PUC sent a letter to BPA with its principles for an allocation and exchange, and "we support all of those principles."

The history of the residential exchange shows a lack of transparency and manipulation, Jenks continued. He indicated that it would take a 2,200 aMW allocation to cover the IOU residential exchange, and he said IOU customers should get power, as opposed to a financial benefit. That's not likely to happen, but we should be considered constituents of the system and get an appropriate amount of benefits, Jenks stated. He pointed out that IOU rates could go up to cover resource adequacy costs, and he said that burden should be shared in the region. Jenks also contended that since Oregon IOU customers are paying a 3 percent system benefit charge, the rest of the region should step up to the plate on the recommendation from the Regional Review and implement such a charge.

New public load ought to have access to priority firm power, he stated. If customers are going to have the ability to change the form of their utility, which they should have, there needs to be an equitable allocation for new publics, Jenks indicated. All of this needs to have rules, but it should be available, he said.

Bonneville Environmental Foundation: Angus Duncan said his remarks were on behalf of Governor Kulongoski's advisory group on global warming. He urged the region to take steps to mitigate for and adapt to climate changes that are pending and that are "already upon us." This year's 75 percent of average water is more likely to be the rule not the exception in the future, Duncan said, pointing out that the average annual snowpack in the Cascades has declined by 50 percent in the last 50 years and that hydro patterns are changing. Credible scientists at the region's universities and government agencies are doing these analyses, he noted.

We are seeing moves toward carbon regulation, and the governors of the three West Coast states are committed to carbon constraints, Duncan continued. There is a political shift in favor of such limits, he said, and states and cities are beginning to respond. Even coal companies in the country are calling for a carbon tax, so "this is not an environmental pipedream," Duncan stated. He said BPA should be proactive in its approach to constraints by meeting the Council's conservation goals, supporting RD&D, and bringing renewables into the mix.

Q&A

Brattebo asked about the price at which new publics should have access to BPA's PF power and about resource adequacy standards. Access should be at the lowest possible price available to publics generally, Jenks responded. But that's with the understanding there would be timing and notice issues, he said. Ultimately, it ought to be at the lowest possible PF rate, but we would need to negotiate and resolve the details, Jenks said.

With regard to adequacy standards, "we may see a rush on BPA" in the future, Hirsh said, suggesting that utilities with inadequate resources could try to return to the Federal system. A resource adequacy standard is a way to protect all customers from the variability in markets, she said. If utilities are going to be responsible for meeting load growth, they have to meet a resource adequacy standard, Hirsh indicated.

Is there a way to define the responsibility for renewables in terms other than dollars spent? Is there another metric? Norman asked. Dollars are one way, Shimshak responded. The Council has done a lot of analysis to determine an appropriate level of renewables, and the public interest groups have also put forward proposals, she said. There are different ways, and we're open to them – "but the most important thing is to do it," Shimshak stated.

A performance-based alternative that leverages BPA's and the customers' capability is better than dollars, Duncan said. It is important for BPA to be engaged in renewables,

Shimshak said. BPA has learned a great deal through its involvement in the market, and without it, the agency would not have learned so much about the barriers to renewables and how to remove them, she stated.

You equate Tier 2 with load growth, Saven pointed out. But depending on the allocation approach and other factors, a number of utilities will not have their entire load covered in the allocation, he said. “Aren’t you hamstringing BPA” if, in addition, all it can offer is renewables? Why be so rigid? Saven asked.

When we drafted our proposal, we weren’t aware there might be customers with load not covered in the allocation, Hirsh responded. But our basic premise is that we don’t want BPA developing and marketing fossil fuels – we don’t see that as part of their mandate, she stated.

Wind competes well with other resources, so BPA may not be as hamstrung as it would seem, Duncan added. He indicated that it is the role of government “to set the rules of engagement” for resource development – they just need to be clear and let others proceed to develop resources.

We share your concerns about carbon, Speer said. The hydro system has lost over 1,000 aMW of generating capacity in the past years that could be reclaimed, he said. The way to deal with lost capacity in the FCRPS is to rebuild the fish stocks, Duncan responded. But the history over the past 15 years does not give me confidence that we are prepared to make the investments necessary to do that, he said. We see good efforts going on, but we also see “a lot of business as usual,” Duncan stated.

How would you treat those utilities that have done a great deal with conservation and renewables as opposed to those that have done nothing? Dan Bedbury (EWEB) asked. Conservation on the margin gets more expensive, he added. We want to provide incentives for utilities to continue their efforts, Hirsh replied. That would have to be worked out, she said.

We invested in wind power, and we did it for economic reasons, according to Larry Felton (Okanogan PUD). Utilities will want to spread their allocation as far as possible, and renewables will be one way they will do that, he said. Rather than BPA having a big renewables program in 2012, if it’s economic, utilities will develop them, Felton stated.

DSI Panel

Alcoa: Jack Speer went through a history of the Regional Power Act, calling it a compromise that allowed BPA to acquire and meld power resources to serve preference customers and DSIs. The residential exchange was to prevent IOU takeovers, and there were environmental standards included “that were right and that fit the Northwest,” he said. But the world has changed, and people no longer like the compromise, Speer stated. The value of having BPA buy resources has diminished, the residential exchange has

been contentious from the beginning, and some people don't want to serve the DSIs, he said.

Now we are talking about taking a new direction, Speer continued. There's the legislative route, but "it's fraught with uncertainty"; there is litigation, and there is compromise, he said. There are problems with all of the routes, but I think compromise is best; we need to focus on what it will take to develop consensus, Speer said. It won't happen until people recognize that the risk of the other routes is greater than "the risk of not getting everything we want," he added.

I've encouraged BPA to continue with its proposal, Speer said. We need to look for long-term solutions, and we need leadership from BPA, he said. While what BPA will put out is a draft, BPA should have "the strength of its conviction" that what it proposes is right, Speer said. He added that customers must have some input into cost control.

The DSI piece fits in with the other pieces, Speer went on. When the Regional Power Act passed, BPA's DSI load was 3,600 MW, he pointed out. The reason the DSIs were created as a class of customers is gone, and we would propose that BPA now sell power to local utilities to serve the DSI load, just as it sells to other industries with a traditional load in the region, Speer stated. That's where things should go, he wrapped up.

Golden Northwest: Brett Wilcox said he agreed with Mundorf that "what we're doing has little to do with the Regional Power Act." We're not acquiring and melding, we're allocating, he said. If we are going down this path, we can make it work, Wilcox said. If you start with allocating the system to the publics, "that's an interfamily fight and you can let them fight it out," he said. Wilcox suggested the change could also be worked out as a rate design issue. But the contract and rate issues are large, he acknowledged. With regard to the exchange customers, the solution is not something based on average system costs (ASC), "it's a political deal," he said.

You are trying to come up with something "that is tolerable for everyone – it's a political and economic deal," Wilcox continued. BPA could force resolution by saying that if people can't agree, it will implement the Regional Power Act as intended, he said. "That is frightening to contemplate," Wilcox added. With regard to the DSIs, if you are moving away from the Act, treat them like any other industry and let them be served through their local utilities, he suggested.

If BPA is not going to provide load growth, you have to assure resource adequacy in some way, Wilcox said. He also said there is a disconnect between having a developer build resources and getting the power to load. I'd want assurance that people have the transmission to serve load, and I'd expand the requirement to include transmission adequacy, Wilcox said. With regard to conservation and renewables, BPA will be acquiring them to meet Tier 2 load growth – it will solve itself, he said.

Wilcox suggested the administrative details on things like cost control should be uniform in all contracts. When you get away from the Act, what is the standard for dispute

resolution? he asked. When you get away from the standard in the Act, you will have disputes, Wilcox predicted.

The DSIs want to be members of the region's power community for a long time, Wilcox stated. We helped develop the system, we care about it, and we'd like to be part of it, he concluded.

Q&A

We are trying to cut through the uncertainty, with things like the exchange, that are part of the Act, Norman said. There's not that much uncertainty, Wilcox responded. It's pretty clear – "everybody got everything," he said, from BPA meeting all load growth to the spreading of risk. If BPA no longer meets load growth, "the rate mechanisms in the Act collapse," Wilcox said. There's not a lot of debate about the application of the Act; "it's not unclear, 7(b)(2) is clear," he stated. But people have been debating whether 7(b)(2) would result in zero or \$600 million a year, Norman responded.

BPA should use its analysis and come up with the correct 7(b)(2) number, Speer recommended. If you did that, it could force a resolution, he said.

We have a New Large Single Load policy (NLSL), Oliver said. Would other industries still operate under the NLSL policy? he asked. That would be a return to the Act, Speer responded. My compromise would be to treat the DSIs like other long-standing loads, he said. "Equity would say, treat us the same," Speer stated.

What effect would a smelter have on a public agency allocation? Mundorf asked. Would a public have to share its allocation with the new smelter? he asked. A local utility could give us the rate treatment it chooses, Speer answered. If we provide value to the communities, and "I think the locals would say we do," they would treat us accordingly, he said. My proposal is to include us in the allocation to publics, Speer clarified.

So we would change the PPC allocation proposal to include the smelter load, Mundorf commented. Yes, Speer said, adding that Alcoa needs 625 MW to serve both of its facilities. The DSI load depends partly on the BPA rate, he acknowledged.

Our proposal is a different construct than the Regional Power Act – treat us like other industries, Wilcox said. We would like our loads served by the local public utilities, but there may need to be a cap, he added.

To include the DSI load, would you decrease the allocation of other publics or augment the system? Mundorf asked. "My plea is to include our load in the allocation proposal you are working on," Speer responded.

What kind of compromise has already taken place between BPA and the DSIs? Hugh Diehl (IAMAW/Alcoa) asked. In 1995, there were 10 smelters getting power from BPA, Speer responded. A 3,000 MW DSI load has gone to 500-600 MW, he added. Is the

intent to force all of the DSIs out of the region by denying them access to BPA power, or do you want to keep DSIs in the region? Speer asked.

We are down to an operating DSI load of 300 MW, Oliver said. Smelters decided to take part of their load off BPA – it was not BPA’s decision, he added. Other things, such as world aluminum prices, have been factors, Oliver said.

Alcoa wanted more power and couldn’t get it, Speer replied. We’ve reduced our operation based on short-term circumstances, he acknowledged.

IOU Panel

PacifiCorp: Scott Brattebo pointed out that people tend to think of the IOUs and BPA only in terms of the residential exchange. But we are large power and transmission customers outside of the exchange, and we have an interest in BPA’s costs and preserving the benefits of the system for the future, he said. You can’t disenfranchise the IOUs’ residential and small farm customers if you want our support for preserving the benefits, Brattebo added.

Fundamental to an allocation is that the existing system be sold at PF rates, with any additional at a higher rate, he said. We need to get long-term contracts to get this in place and make the changes durable – we don’t think going back to the residential exchange outlined in the Act is viable, settlement is the way to go, Brattebo said.

The IOUs are willing to accept financial benefits in lieu of power, but our residential and small farm customers need to feel like they are part of this, Brattebo said. If they do, “we’ll be arm in arm with you in D.C.,” protecting the system, he stated.

We need to find “an alignment of interests,” and I don’t hear a lot of differences, Brattebo continued. We need to figure out how to bring this together in the next six months so we’re all on board when the Administrator signs the ROD, he wrapped up.

Puget Sound Energy: Dave Hoff said the original exchange envisioned IOUs selling their exchange load to BPA at ASC and buying back the equivalent at the BPA PF rate. By 2012, we forecast that all five IOUs would be exchanging 5,000 aMW, and that could equal \$600 million annually, he said. We propose that starting in 2012, we would exchange 2,200 MW at a forward flat block price minus the Tier 1 rate, Hoff explained. We would cap what we would get at \$350 million, he said. This would be similar to the existing agreement, Hoff added. We would adjust the cap and the floor and settle our exchange rights for a new agreement, with an annual cost that could range from \$100 million to \$350 million, he stated.

Portland General Electric: We need a long-term tiered-rate mechanism, according to Lyn Williams. Going from rate case to rate case doesn’t provide stability, and a long-term mechanism would provide the planning horizon we need for new resources, she said.

With regard to the DSIs, BPA should provide a benefit and not have the companies move to taking service from local utilities, which would result in more risk, Williams said.

The utility commissions take care of resource adequacy for the IOUs as part of the integrated resource planning requirement, she said. We understand the need for a standard and encourage the publics and BPA to come up with something that is workable, Williams stated. Let customers continue to participate in your cost control process, and continue the effort to make costs more transparent, she advised.

The conservation and renewables discount is a good mechanism and can work going forward, Williams stated. There should be a backstop if utilities do not do enough conservation, she added. Utilities have different profiles and the conservation potential differs – your policy should allow for that, Williams said. Continue to look for renewables, and consider things other than wind, she advised.

The outcome for the GTAs may depend on what happens with TIG and Grid West, Williams pointed out. I'd urge you not to put those costs in transmission rates, she stated.

Q&A

Why would it increase risk if the DSIs are served by local utilities, Leathley asked. If the DSIs avoid the NLSL provision, other industries may decide to try to avoid it too, Brattebo responded. The current application of the NLSL is working, he said. It is still BPA load, but you wouldn't have any control over it, Hoff said. You have the risk of another intervening policy maker, he said.

A big factor in the difference between Tier 1 and Tier 2 is system augmentation, Brattebo said. I want to emphasize that tiered rates alone don't solve the problem, he said.

Norman asked about a formula for a proxy for ASC. We are open to alternatives, Brattebo said. The benefits in our proposal are a way to preserve a share of the system for our exchange customers, he said. And to keep the share constant, Hoff added. We'd talk about other mechanisms, he added.

How would you deal with the rate test if you settle the exchange, Mundorf asked. There would be no rate test, Hoff responded. But if there is a public exchange, we'd exchange the rest of our load over 2,200 MW, he stated. It would be easier if the publics didn't exchange; that "tips over" the whole allocation scheme, Brattebo said.

Elliott Mainzer (BPA) asked what a properly constructed 7(b)(2) rate test would look like, and Hoff went through the steps, explaining that what he would envision eliminates the difference between the PF and the PF exchange rate, he said. If there is no differential in 2012, all of the IOUs would be exchanging, according to Hoff. Under the settlement construct, what about the part going to the low ASC utilities? Leathley asked. There won't be any low-cost IOUs in 2012 since all are adding resources, Williams

responded. She also pointed out that a return on equity and taxes should be put back into the ASC calculation.

Tribal Panel

Yakama Power: No one has been affected more than the tribes by development of the hydro system, Ray Wiseman told the audience. The development wiped out villages and livelihoods, he said. Now 60 years after the system was built and tribes are in a position to form public utilities, they may be locked out again, Wiseman stated. No other entity has given up more for the benefits the region realizes from the hydro system, yet if new publics are excluded from the allocation, the tribes could be locked out of the benefits, he said. The system needs to be equitable and fair, Wiseman said.

Tribes have no issue with power for the DSIs, as long as it is not in lieu of an allocation for new publics, he continued. With regard to cost controls and dispute resolution, we would want to be sure they do not take precedence over restoring F&W, Wiseman said.

The tribes own land and could develop large amounts of renewable energy, but there is no incentive to do so, he stated. The tribes are very cautious about wind power, Wiseman acknowledged. People are looking at individual installations, but not at the global impact of wind development, he said. We are concerned about unintended consequences and environmental effects, such as harm to migratory fowl, Wiseman said. We don't want to see history repeat itself, he said, referring to the impacts of hydroelectric dams.

The tribes are in a prime position to produce electricity and are potentially in areas where developing resources could help solve transmission problems, Wiseman summed up.

Confederated Tribes of the Umatilla Indian Reservation/Yakama Nation: J.D. Williams said to defacto amend the Regional Power Act requires consensus. Without protection of F&W, the tribes won't be there, he said. Williams pointed out that tribes are unique entities – they are governments and have economic activities like a business. They are looking at providing new electricity load and serving it, he said.

Tribes are interested in renewables, but “they don't think hydro is green,” Williams went on. There is more room in the region for fossil fuel plants if it means more water for fish, he said. The tribes have interests in common with many of you, and there would be benefits of alliances with the tribes, Williams stated. BPA has improved on getting tribal participation, he said. Tribes won't support cost controls if they get in the way of F&W protection, Williams added. Our big concerns are the future allocation for new publics and seeing the hydro system driven like a market, where “salmon are the first victims of economic circumstances,” he said.

Tulalip Tribe: Dory Roanhorse said his tribe is concerned about getting locked out of access to the federal system. The tribes have given up more than anyone else for the benefits, and they should not be denied access if new tribal utilities form, he said.

Q&A

How many MWs do you think we are talking about with tribal utilities? Norman asked. Probably less than 30 MW total, Williams said. We may want to see more power reserved, but realistically, that's about it, he said.

We've talked to many tribes about forming utilities, Brattebo said. How long before Yakama Power starts taking service? he asked. We intend to take service starting September 30, 2005, Wiseman responded. So you are not being locked out, Brattebo said. We've tried to accommodate tribes forming utilities if they want to, he said. We would invite you to participate as part of the customer group – it's not our intention to lock out tribes, Brattebo stated.

The PPC proposal allocates to existing publics, with nothing left for new entities, Wiseman responded.

How to Move Forward

The discussions we've had with BPA staff on allocation are a good paradigm for further conversations, Mundorf said: there was a proposal, people expressed concerns, and then we had meetings with back and forth to start trading ideas and solve problems. We're interested in how we could use this paradigm to resolve the rest of the issues, he said.

It would not be helpful for you to put out a draft ROD in July, Mundorf stated. When I write something down, I get invested in it, and "it makes it more difficult for me to hear other points of view," he said. A draft ROD does not encourage an exchange of ideas; when BPA releases a draft ROD, a large segment of customers conclude "it's a done deal," Mundorf went on. It's not conducive to getting a dialogue going and encourages "a debate by paper," he said. It sets up an unhelpful dynamic, Mundorf stated.

You are probably close to a comfortable position on some issues, so instead of putting them into a draft ROD, why not line them up into a straw proposal and put out a schedule for dealing with each issue, he suggested. If we don't take advantage of the opportunity, "shame on us," Mundorf said. We want to get a preponderance of support for the issues and have people say it is good work, he said. Mundorf suggested BPA announce the issues, get the right staff there, and give stakeholders "fair warning." If we fail to take advantage, "we have failed to participate in the legacy process," he said.

BPA, joint customers, or the customer collaborative could sponsor forums, Brattebo said. You could call a meeting and offer a straw proposal – joint customers or the collaborative could meet on the side, he said. If you call the meetings, it would have more credibility, Brattebo added. I agree with Terry, a draft ROD is not the way to go, he said.

We need better consensus, and more focused negotiations would be useful, Hirsh agreed. But we have to have decision makers in the room, and there has to be pressure on the

parties to come to consensus, she said. They have to be aware that BPA “has a draft ROD in its pocket” and will release it if people don’t come to consensus, Hirsh said.

Give us an idea about what you have in the ROD with a couple of alternatives, and let us try to come up with a solution, Williams suggested.

If you were really confident that this was a straw proposal, would you be more comfortable? Norman asked. That is more like what we have in mind, he said.

The idea of putting this down in a written document and the publication of the document changes the dynamic, as opposed to breaking it into pieces and saying, “here look at this, what do you think,” Mundorf replied.

I don’t agree, Speer stated. We have been discussing these issues for years, and we need to change the dynamic, he said. A way to do that is for BPA to come out with a proposal, and we can focus our conversation around that, Speer said.

When we put out a proposal and then start our public hearings, it can tend to turn into “us and them,” Helen Goodwin (BPA) said. What if BPA put out a proposal and then go into a workshop format rather than public hearings? she suggested.

Mundorf warned against a “rate case mode,” where BPA chooses what it likes and doesn’t like. This is a plea for finding what we agree on, he said. I don’t know if what you suggest would change things enough, he said. I want to agree with the agency, and I would like to design some way to do that, Mundorf stated.

I don’t know if there is “a magical process,” but we get more done in workshops than in formal proceedings, Brattebo said. We need to roll up our sleeves and work – it’s worth a try, he said. I don’t hear consensus now, but I hear common elements, he stated. It won’t be easy – it could take days on each issue, but it’s more conducive to agreement than what you propose, Brattebo said.

I keep hearing people talk about consensus, “but no one seems willing to bend,” Vicki Henley (IAMAW/Alcoa) said. Consensus does not mean we all like what’s on the table but “we can live with it,” she said. We have to work toward a fair consensus – everyone in the room has to work together, Henley urged. BPA has to make a decision; “it will be fought out in the courts no matter what,” Diehl commented.

As a region, we have to get better at this, Wyla Wood (Mason PUD 3) said. We need to sit down together and come to some decisions, she stated. I like the idea of breaking this into manageable pieces and coming up with conclusions, Wood stated. If we keep up this mode, we’ll lose the benefits of the system and be very unhappy with ourselves, she said.

It would be difficult for BPA to put something out and not have it appear “that the train is already going down the track,” Fred Rettenmund (Inland Power) stated. I agree that the workshop approach is the way to go, he said.

Oliver said it would be more compelling if everyone agreed that if they did not get what they want, they wouldn't turn to Washington, D.C. If we get everyone together, do they still hold that option? he asked. There is now litigation against the BPA Administrator, challenging his authority to make broad settlements, Oliver pointed out. It's difficult to have this conversation about a settlement with the lawsuits hanging out, he added.

What the agency has to do is work with those people who are trying to moderate the urge to go to Congress, and get to a place where people say, "this package works," Kevin Clark (Seattle) said. Consensus may just be that people "won't oppose what's decided," he added. I see the customers working well together – this approach gives us the best chance, Clark said.

If customers reach agreement but there are "fringe" issues left out, we will get to a negotiation that isn't balanced, Hirsh cautioned.

We tried to get to a settlement on the litigation, but it broke down, Mundorf said. The notion of lawsuits going away is probably not realistic, and it would be hard for customers to forego the opportunity to talk to Congress, he said. The protection from that is the success of the process, Mundorf said. BPA also has a need to communicate with the delegation, and asking others not to do that "isn't in the cards," he said. It would be okay to have a precondition that people believe "this is the place to put their effort" to get to a solution, he agreed.

There's legislation, litigation, and consensus, Speer said. Consensus is the way to go, but everyone will consider all of their options, he said. You have to make consensus the best option, but getting there will take a BPA proposal, Speer said.

I'm there with consensus, but how to get it is the question, Norman stated. I'm not sanguine about just more talking, he said. Maybe the way "to break the dam" is for BPA to put something on the table, Norman proposed. We need a forcing mechanism, he added.

I'd describe what we're proposing as a pre-release of the policy in three or four pieces, Clark said. You would walk us through it and give us a chance for feedback, he said.

We are looking for something in a process that has rigor, Mundorf said. Disciplining ourselves to a schedule is part of this, he stated.

Framing the purpose of meetings is important – it's not feedback, it's to negotiate a solution, Hirsh stated. That sets an attitude to work things out, she stated.

We will talk to Steve Wright about this tomorrow and let you know, Norman said. Thank you all for your participation, he wrapped up.

The meeting adjourned at 4:15 p.m.