

Bonneville Power Administration Regional Dialogue Principals Management Group

**Portland, Oregon
September 19, 2005**

**BPA Rates Hearing Room – 9 to 4 p.m.
Approximate Attendance: 75**

Opening Remarks

Mark Gendron (BPA) welcomed participants to the principals management group meeting. He said BPA envisions this phase of the Regional Dialogue as “a short intense process,” the goal of which is for the region to come to consensus on issues raised in the recently released *Long-Term Regional Dialogue Concept Paper*.

BPA Administrator Steve Wright reminded participants of how important it is to maintain a focus on the long term, despite numerous short-term issues that demand attention. The Federal Columbia River Power System brings great value to the region, and the Administrator’s job is to preserve and enhance the value of the system, he said. BPA rates are still very attractive and among the lowest in the nation, Wright continued. “We have something that is incredibly valuable,” he reiterated.

The most important thing we can do is preserve cost-based rates for the future, Wright stated. He talked about the need to create certainty around BPA’s obligation to serve and to give customers certainty about the pricing for federal power.

Wright said the region has “a window of opportunity,” while there is a relative power surplus, to “reach for the stars” in resolving Regional Dialogue issues and to create a legacy for the future. This is the most important process we will take on in my tenure as Administrator, he said.

This is about all of us, not just BPA, and the people in this room have to help to find solutions, Wright said. “It will be extremely hard,” he cautioned. We have developed passionate, emotional arguments about what we should have from the system, and this is an opportunity “to rise above” those arguments, Wright said. My challenge to the group is to take this on “as your issue” and to meet the challenge, he said. “Good luck in making the substance and the process work,” Wright concluded.

After introductions around the room, Gendron moved to the day’s agenda.

Workshop Process Discussion

There is real momentum in the region toward getting to a conclusion in the Regional Dialogue, Gendron said. In the end, BPA's aim is to see the Regional Dialogue process conclude with durable long-term contracts that incorporate cost-based rates, he said. To set the stage for the next 90 to 120 days, during which the region will work on resolving issues, we need to come up with a structure for the process and hear preliminary reactions to issues in the concept paper, Gendron indicated. The concept paper is a starting point for collaboration – it is not a position paper, but rather “it spells out our leanings” on the issues, he stated.

In response to a question about whether BPA is unmovable on any points in the paper, Gendron said the agency “is very open minded” on the issues. He acknowledged there may be areas in which BPA will find it hard to move its position, “but Steve Wright said it well: we want this to be *our* outcome.”

Gendron suggested the following guidance for the principals group: we're working toward a comprehensive package, and it would be easy to bog down on specific issues and details. Let's try to remember “the big picture,” which is to achieve a long-term, stable power supply, cost-based rates, and long-term contracts. Second, let's keep things at “a high-level policy approach” – we'll have time for detailed debate later. And third, we've got a large attendance today, and “let's stay the course.” I ask you to stick with this for the duration, he urged.

Goals

Gendron moved on to the seven goals BPA outlined for the process. He read through them and asked for comments.

Participants offered the following major points:

- The goals have “a BPA-centric” ring. From the customer perspective, we'd like to see the Regional Dialogue delineate the 20-year rights and responsibilities of customers and BPA, establish enforceability on both the agency and customer sides, and proceed with a more collaborative way of determining BPA's costs and resource acquisitions.
- With regard to “no new legislation,” it may be necessary and should not be ruled out.
- The Regional Dialogue is an opportunity to craft a better, stronger business relationship between BPA and its customers than has existed in the past. We need to spend less time on debates and controversy and more time on solving long-term issues.
- Write the goals with more concrete language, i.e., change “promote development” to “develop.”

- Add the goals of achieving a stable, cost-based power supply and improving the mission accomplishment in fish and wildlife (F&W) mitigation.
- Define, as well as align, regional interests and reduce regional conflicts.
- Get the incentives right for achieving what the region needs in terms of future electricity infrastructure.
- Preserve the value of the Federal Base System (FBS) and maintain BPA's competitiveness.
- Reduce, not just limit, BPA's costs over time.

Structure of the Process

Gendron outlined BPA's proposal for structuring the process, with a principals management group and a technical representatives group and subcommittees. We believe this process needs to be open, he stated.

We saw the need for several tracks, Gendron explained: the principals and managers group; technical representatives designated by the managers to work on details of the issues; and subsets of the technical group to deal with specific issues, such as Slice.

There have been discussions about groups working parallel to this process, he acknowledged. We believe in an open process, but we need to be up front about the possibility that other folks will be meeting in different forums on these issues – that will happen, Gendron said. He suggested there be a discussion about “where this will all take place” and whether it will be “a BPA-centric effort” or set up to accommodate others meeting separately to work on the issues.

A representative of what he called a loosely organized “joint customer group” suggested that it would be difficult to settle on an exact process for resolving the Regional Dialogue issues. As we go forward, we'll find what works and what doesn't – the process will evolve, he said. People will be meeting in subgroups and in other caucuses, but “let's not throw your process away – let's give it a fair shake” he said.

Gendron said the output of the principals group would be used to finalize a proposal that resolves the Regional Dialogue issues. We hope the region will come to alignment on the issues, and the alignment that is reflected in the principals group will be a significant part of what goes into a BPA policy paper, Gendron said. We want the Regional Dialogue Record of Decision (ROD) to be one the region broadly supports, he stated, adding that the ROD would drive development of new contracts.

So if the principals group can coalesce around an issue, BPA will look at that as the consensus position, a participant clarified. He suggested giving structure to the interaction between the principals group and the subgroups, and suggested BPA keep the principals informed about what subgroups are meeting and what they are doing. He also asked if the principals group would find ways “to drive to consensus” on issues.

Gendron indicated there isn't a particular BPA proposal about how to get to consensus. We hope this process is a collaboration and that at the end of the day, we can say we're generally in agreement on an issue, he responded.

The role of the principals group is to make sure the small groups are making progress and then to come together on what the technical group brings forward as recommendations, a participant stated. Yes, the principals group could accept or change recommendations that come from the technical group, Gendron agreed.

Another participant questioned whether to legitimize, as part of the Regional Dialogue process, ad hoc subgroups that are "invitation only." He questioned whether "backroom deals" that come from these subgroups should have a role in deciding significant public policy issues. "I have a real problem with self-appointed, invite-only groups," he said.

We want to create "a credible, bona fide, legitimate process," Gendron replied. If other groups are created, those groups can report to the principals – we can't stop that discussion, and it's probably necessary and important, he stated.

The large principals group is important, "but none of the real work happens here," another participant commented. Smaller groups will need to hammer out details and bring them to this group, he said. It is important to have BPA representatives in the small group discussions, so people will know if something is "in or out of bounds," he added.

There was also an observation that not everyone has "a deep bench" of people to go to work in these small groups and another that the process needs leadership – someone who can say, this is the way things will be if there isn't consensus.

If a technical group is to have value for the principals, it has to be made up of people "with portfolio" – this pertains to customers, interest groups, and BPA, a participant said. The people "doing the heavy lifting" have to be empowered by those they represent, he stated. We need to have balance on the work groups so they really represent everyone, another participant commented. They shouldn't be loaded up with people who all have a particular interest – we want a thorough discussion of all sides of issues, he said.

It sounds like we are all generally on the same track with having a large principals group that meets, with "worker bees" to do the heavy lifting, Gendron summed up.

There was a suggestion that the principals group identify and prioritize the technical issues and that a meeting schedule be established so people will know where they want to spend their time.

Observations on the Concept Paper

Participants generally praised BPA's efforts in putting together a substantial concept paper. They made observations, laid out concerns, and posed questions.

- Why is BPA approaching allocation as a number of megawatts (MW) rather than a percent of FBS generation?
- The idea of decrementing existing customers to provide an allocation to new publics is a cause for concern.
- Resource adequacy should not be an element in new contracts.
- Does it make sense to meet load by dropping load? This poses a real risk for all load, not just DSIs, since it is always the cheapest way to go.
- The goals should include figuring out how to serve the region's entire load.
- Are the proposals legally sustainable given provisions of the Northwest Power Act, i.e., publics rescinding their right to the residential exchange?
- The framework for treating the IOU residential exchange is what is being used today, but that framework is under legal challenge.
- There has to be a clear determination about how much power each utility gets and how the price will be determined.
- Is the deal enforceable when circumstances change, as they are bound to over 20 years? The concepts are "short of what is contemplated in the Northwest Power Act," so is this durable?
- The concept paper does not treat conservation like other resources. If you build a resource, your allocation does not change; if you develop conservation, it does. That is a step back from what was contemplated in the Northwest Power Act.
- BPA is right in looking to the Council's Power Plan for guidance in establishing conservation and renewable goals.
- For Tier 2 resources, BPA should follow the Council's Power Plan and develop least-cost resources.
- Tiered rates have merit in giving a true price signal, but they are not a good idea if it means loading Tier 1 with "the same old tired programs."
- BPA should identify which items in the concept paper it is already set on and will not change.
- Where does transmission fit into this?
- Why is a New Large Single Load policy relevant in this "new world"?
- The language in the paper related to products is troubling. It sounds like if the contract dispute decision on products is not resolved in BPA's favor, "it will take its ball and go home."
- In a long-term predictable business arrangement, we have to know how differences get resolved.
- The definition of net requirements is very important and should be up front.
- The approach to energy efficiency and renewables is commendable; the final proposal should include independent verification of conservation.
- BPA can provide value to the region as a provider of resources and may be a better option than fragmented local acquisitions. Look hard at making "the pie" bigger.
- Contract provisions and a rate methodology must all come together on the same schedule for this to work.

- The platform for the IOU residential and small farm exchange is a good starting point. How do we identify something durable with the exchange when the current framework is being litigated?
- If federal legislation is what's needed to make this durable, we should keep that option open.
- We need clarification on the treatment of new publics.
- The approach to renewables needs more fleshing out.
- The new proposal has to work with resource adequacy requirements.
- The concept paper's proposal for cost control is weak. The ability to take 15 percent of load off BPA is not sufficient or credible.
- Why is pooling not allowed and why would it contribute to regional conflict or be burdensome administratively? A pooling arrangement is allowed for DSIs but not for others.
- Give low priority in this process to resource adequacy and expend effort on more critical issues.
- If you decrement load, the associated costs should go away too.
- Those who are benefiting from F&W expenditures should pay some of those costs too.
- All renewables should be counted; we shouldn't be penalized for renewables we already have.
- The allocation should be tied to real loads, and loads will change over time.
- Tier 2 should also be cost based; BPA should be a viable provider of Tier 2 resources.
- There has to be an incentive for utilities to enter new contracts before their current one expires.
- Predictability is the most important thing; the power committed must be predictable, and the allocation should not change during the term of the contract.
- Conservation should be encouraged and rewarded.
- Resource adequacy is important, but there should be a way to address it without overruling local decisions.
- Dispute resolution is an important new component. Going to the Ninth Circuit is not a viable option, and we need to tread new ground in this area.
- The conservation and renewable targets need to be worked out as part of this process, not some later effort.
- Tier 2 acquisitions should be consistent with how BPA would acquire resources without an allocated system.
- In an allocated world, how will GTAs function for utilities that purchase Tier 2 resources?
- We need a simpler new approach to net requirements. A net requirement calculation was not done for full requirements customers in 2002 and that needs to be addressed.
- Why would a utility's high water mark go down if it were faced with load loss?
- The spillover of unrecovered Tier 2 costs into Tier 1 is problematic. There should be a clear line between costs in the two tiers.

- Why limit the new contracts to 20 years? A longer-term contract could help utilities make resource acquisition decisions.
- There is a willingness to discuss IOU residential exchange benefits and resolve the associated litigation.
- We need planning certainty and don't find it in the concept paper.
- BPA should maintain a position in the market for renewables.

I'd caution us not to get too far into the weeds in these principals discussions, a participant advised. The further we get into the weeds, the fewer people will show up at the meetings, he said.

Prioritizing Issue Areas

Gendron suggested the next step would be to prioritize the issues and make assignments to the technical group "so folks can get to work."

The concept paper *is* an issue list, one participant responded. People who show up for "the heavy lifting" have been around these issues before, and those people will be able to organize their own work, he said. We ought to set up a meeting for those who want to participate in the heavy lifting and allow them to organize themselves, he suggested. We know "the big-ticket items" that need to be resolved, he added.

We need to give direction to the technical group, another participant said. The focus should be narrower than the entire concept paper, he recommended. The members of this principals group should have opinions on what's important – let's go around the room and have the policy people say what they want accomplished, he said. "The looser this is, the less likely it is to get done," he added.

Others said they were not comfortable with prioritizing issues and suggested there were interactions between the issues that would need to sort themselves out as the work proceeds. What about going with the outline for the concept paper to get started, a participant suggested.

All of the issues are pieces of a puzzle, another participant observed. "Until you resolve them all, you haven't resolved any," she added. She suggested the issues could be grouped in "clusters" for the technical work.

Gendron asked for a show of hands for those who wanted to let the technical group make decisions about the approach to its work and those who wanted the principals group to proceed with identifying issues and setting priorities. A large majority voted for the former approach.

Let's not forget that the technical group is going to return to the principals with a resolution to a couple of the issues, a participant added. We should have a reasonable expectation this group will work hard and bring back solutions within a month, Gendron

agreed. He asked the principals to e-mail Nita Burbank at BPA with the name of their technical representative designee. The technical group will have open meetings, and there will be no limit on participation, he added. The technical representatives need to be people who can dedicate a lot of time to the effort, a participant pointed out.

What happens if we can't agree? What is the consequence for not agreeing? a participant asked. Our hope is we can come as close as possible to closing the gap on issues, Gendron responded.

I presume the greater the consensus in the group, the more BPA will lean toward going with the consensus, a participant commented. The less the consensus, the more latitude BPA would have, he said. I'd agree with that, Gendron responded.

There were other questions raised about the process for the technical group and whether the group might come forward with more than one proposal. If the technical group can't agree on an issue, that issue will come to the principals for resolution, Gendron proposed. We haven't defined the process for coming to a final conclusion, he acknowledged.

We want to provide more detail about why we went the ways we did in the concept paper, Gendron said. We would be happy to provide clarification, he offered. We also need to set a date to kick-off the technical process, Gendron said.

The group agreed on the following dates:

September 23 – Two-hour clarification session, with the first technical group meeting for the remainder of the day.

September 30 – All-day technical group meeting.

October 20 – All-day principals management group meeting.

There was some discussion about clarifying the mission for the technical group. I'd advocate clustering the issues and setting a sequence for addressing them so interested people could show up at meetings where their issues are to be addressed, a participant suggested. If you could have that worked out ahead of time, we could be organized to get going at the first meeting, another participant responded. Another suggested BPA float a proposal for the issues and times. Once we set a schedule, we need to stick to it and not move issues around, a participant advised.

Gendron asked for volunteers to put together a schedule. Several people agreed to stay after the meeting to work on a schedule.

The meeting adjourned shortly before 2:45 p.m.