REGIONAL DIALOGUE RENEWABLE FOCUS GROUP
NOTES 12/10/04

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After introductions, discussion focused on the draft matrix. The focus, said Elliot Mainzer, of the implementation criteria across the top of the matrix (like "Ease of Administration") is to be on the customer while keeping BPA in mind. Rate the options included in the matrix from one as best to five as worst. Rate each option as it affects each descriptor. Elliot clarified "impact on conservation targets": You should be asking yourself whether the option would negatively impact the Conservation Group's ability to meet the targets it has set out to meet under the Council's plan.

For the benefit of Mark Jackson, from the TBL, Elliot outlined the C&RD: Currently the C&RD program allows for flexibility between conservation and renewables. If there is not at least $6 million per year spending on renewables through the program, BPA has an obligation to provide a backstop. So far, through FY 2003, about 30 utilities have been using about $6 million/year and we are on track to meet the target. The goal, through the regional dialogue, is to try to preserve that $6 million of funding through the best mechanism or combination of mechanisms.

Matrix Options Review
Elliot began by describing the "Status Quo" option. The status quo maintains flexibility between conservation and renewables. Many of you have indicated you like the

flexibility. Please note that the current program has no rate impact because the $6 million was not collected in rates, it was a credit; if customers did not invest a total of $6 million per year on renewables, BPA has stated that we will act as a backstop. Slight tweaks to the status quo are represented by the other options listed in the matrix. The second option is to collect $6 million per year in requirement rates and issue rebates to customers (who perform) on a pro rata basis. The third option is to collect $6 million in rates, accept applications for those dollars on a first-come, first-served basis or, alternatively, offer a series of renewable options for customer sign up at the beginning of the rate period (mutual fund idea). Options involving the collection of $6 million in rates would have a 10 cents per MWh impact on the PF rate. The fifth option involves combining the $6 million dollars with the $15 million renewable fund and eliminating the renewable rate discount. BPA would administer the entire fund. The last option is billing credits. Yet another possibility, not included in the matrix, is for BPA to limit renewable activities to facilitation services at cost (self-supporting). Self-supporting facilitation would not need the renewable fund and there would be no rate impact.

Some of the expenses associated with the renewable program will be embedded into BPA rates as we go into the rate period (e.g. cost of energy from the six wind projects, wind and solar monitoring etc.). However, new opportunities may emerge in the middle of the rate period. BPA may be able to finance these new opportunities by drawing out of reserves for a couple of years and then embed them in the revenue requirement going into the next rate period.

Eugene Rosalie and Rachel Shimshak thought the $15 million was already in the rates. Rachel questioned what would happen to whatever part of the $15 million that wasn't used. Angus wondered if there was a way to encourage BPA to invest the remaining unspent money left in the $15 million renewable fund rather than having the money go into BPA's general fund.

Policy Benchmark

Elliot reminded them of the lengthy previous discussion about how the $15 million fund worked. It's a combination of direct programmatic costs plus R&D, like wind monitoring, along with the above-market component of acquisitions. So without the geothermal project, there is lots of room left in the $15 million to do incremental spending before using up the $15 million worth of above-market. The wind and solar projects that are currently spinning or generating and are selling into BPA's system are embedded in our rates. If, starting today, we agreed that we want that $6 million to increase the headroom above the $15 million to $21 million, we will not immediately raise rates by $6 million. We would go into the rate period with the ability to enter into facilitation activities or acquisition that would use a portion of that management benchmark. We would not put it into the rates until we are committed to spending it.

Geoff wondered what would happen if it was decided to spend some of the $6 million in the middle of a rate period--a new rate case? Elliot replied it would come out of reserves.

Al Ingram explained further. In the current rate period, we promised to do some renewable acquisitions. BPA also made substantial market power purchases to augment the Hydro system. We put only the difference between our forecasted price and the cost of the renewable resource in the rates. So, there is a proxy of about $15 million in rates right now. In this next rate case, the renewable expenses will be accounted for differently. We will include the total cost of our contracted projects and manage to the $15 million outside the rate case. The $15 million will be an internal management target.

Rachel questioned whether the $15 million is actually assessed from BPA's current customers, or not, and what happens to the part of the $15 million that never gets invested?

Al said yes, that's how it's assessed from customers. Elliot thought that since it is collected, it would be basically reserves that would go to increasing treasury payment probability, which would presumably lower rates. Al said it's complicated, depending on things like whether investments are made in year one or year five. But the outcome is that every year there would be no spending that goes into reserves. At the end of the five-year period, if we make our reserve target, than things are good. If we spent more than we planned on or reserves are lower than we intended them to be, things aren't good.

Elliot added that if not all the existing $15 million (in rates) was spent; the remainder would go back into the BPA fund. It doesn't roll forward. But Rachel added that neither does it go back into the renewables program; it just goes to the BPA general fund that does general things.

Al outlined a few choices going forward. We can increase our management target or reduce our revenue requirement. We could continue the current policy using a management target bigger than $15 million. We have choices. We could allocate money from reserves for future funding, but it would be much cleaner just to have line items in the revenue requirement. If we had a higher revenue requirement each year and figured we would not do something until year three, it would be a lot cleaner than trying to add to revenues or reserves. It is tricky to try to increase reserves for something you might or might not do.

Elliot said that going into the next rate period, with the five or six wind projects that are currently selling into the system, we will be recovering some of the costs associated with these purchases from the sale of their energy. If we decide to put the $6 million currently spent for the C&RD program on top of that $15, through the policy-benchmark-type approach, we don't just add $6 million to our revenue requirement without having specific commitments to spending in advance of the rate case. If you go into a rate period with cash reserves in the bank, part of your working capital is to make incremental investments between rate periods.

But in reply to Angus' question of whether having a reserve assures that the additional $6 million is available, Al said no, the Administrator ultimately has the ability to use reserves for anything he wants. Geoff added a caution that drawing from reserves has different and serious implications for different kinds of customers, such as SLICE customers, who depend on actual costs that are trued up each year versus requirements customers, who are much more affected by reserves.

Ease of Participation

Elliot then moved to the matrix column entitled "Ease of Participation." Obviously, for some customers, investing in conservation or renewables is not easy, and they like the existing flexibility. Do any of the options presented in the matrix make it easier for all participants to do something with renewables? The mutual fund idea was created to make it easy for utilities to implement (sign up and BPA invests pooled money). It also makes it possible for utilities to pool their money, making larger, more-economical investments possible.

Scott noted that the conservation program going into the next rate period is currently estimated to run $80 million/year; the existing C&RD program is $40 million/year. Due to the flexibility currently allowed, in theory there could be $40 million available for renewables in the C&RD program. Going forward, there will be much less [because there is no flexibility]. Rachel added that the existing flexibility goes both ways. You could spend all the money on conservation or all on renewables. The $6 million for renewables in the C&RD was just the part that BPA agreed to do if no one else showed up to do it. It was in addition to the $40 million. It was envisioned as the worst-case scenario—BPA would at least make this much investment. If utilities decided that they wanted to invest more in renewables, then that whole $40 million is available, but it has an impact on conservation targets.

Carel DeWinkle questioned BPA's conservation/renewables expenditures versus percent of total revenue--he saw from the 2004 annual report that BPA's conservation and renewables program share of revenue was about 2.3 percent, of which the 2 percent was conservation and the .25 or .30 percent was renewables. Al questioned whether transmission revenues were included. Carel compared BPA's spending to Oregon utility spending. Tom O'Connor said what is confusing is that the Oregon calculations are based on the percent of public customer's individual retail revenues. It included a lot of public-purpose funding and other conservation issues that don't quite jell with what we're doing here.

Alan Zelenka said the total for all public purposes at EPUD was about 0.7 percent of their retail revenue. Rachel concluded that all said a very small percentage of BPA's overall revenue actually goes to renewables. Al added that since so much of BPA's revenue goes to debt service, it might be better to compare renewable spending to investments associated with programmatic choices, and then it becomes a bigger fraction.

Conservation Targets

Elliot refocused the discussion on whether the matrix options facilitate or enhance the Conservation group's ability to meet their targets [sixth column in the matrix].

Scott thinks there will be no effect. He added that utilities that do conservation do conservation and utilities that do renewables do renewables. Angus wondered why Scott seemed to be dismissing the Council's conservation targets [??]. Scott said it's because if a utility can only do renewables, they are not going to do conservation anyway--regardless of the Council's targets. Tom O'Conner agreed, saying those who are doing renewables through C&RD right now are also the ones who are over and above on the Conservation side anyway, so there is likely no a big impact.

But Annick said her members had anticipated that the C&RD would continue for the next five-year period, so they front-loaded their conservation efforts and were anticipating being able to use the C&RD in the future for renewables. Their forward spending on "C" and not on "R" skews the data, giving the impression that public utilities are not interested in renewable investments. Elliot concluded that in that scenario, switching to any other option [besides status quo] hurts their ability to do conservation or renewables.

Local Control

Elliot turned the focus to the local-control column. Is "people getting to do what you want, when you want, with your dollars" a satisfactory explanation?

Angus said that clearly the $15 million was not left to local control. It was money BPA was spending. Also, the $6 million historically could have been money that BPA was spending if the utilities did not invest in renewables and spent it all on conservation. So, it is at least an open question whether that $6 million would simply be allocated to projects that came from customers. Angus was particularly interested in what would happen if not enough projects came in from customers. If only $3 million worth of projects emerge from the customers, then the other $3 million goes into reserves? Or does BPA have the option--and people have the option of lobbying BPA--to either spend it or not spend it on additional renewables? It seems an open question whether the $6 million would be ipso facto dedicated to just customer projects, especially if not enough customer projects came forward to use up the $6 million. Further, if there are no good projects, neither the customers nor BPA maintain flexibility to spend the dollars. Elliot asked if Angus was implying that the criterion should ensure that the dollars are actually spent on renewables. Angus said it was more like "enhances the probability."

Eugene questioned that if the $6 million was a separate program, is it more likely to be in the rates or the revenue requirements? Al answered that if you continue a rate discount program as is, it would not be in the revenue requirement but would be added on as part of the posted rates and then rebated to customers. Eugene thought the $80 million talked about for the conservation program in the next rate period <u>was</u> a revenue requirement. Al said he believes that if there is an acquisition program, it would be a revenue requirement, while a rate discount program would not. Then Eugene asked what if they were doing both an acquisition and a discount. Al replied that the two probably would not get fit together because they are fundamentally different, though there may be some of one and some of the other.

Elliot asked if there were any additional criteria for this matrix. Angus then proposed that the last column of the matrix would better be better characterized as "local initiative" rather than local control that we are trying to encourage and support local initiative, not control. Deb replied that it is both. In some of the options listed in the matrix, BPA has the money; on some, the customer has control of the money and does the investments themselves.

Overview

Elliot then encouraged the group to dig into each option, how it stacks up against the different criteria listed at the top, and see what, if any, clarity emerges about which of these options is preferred. He likes the "mutual funds" option, the second part of option 3, BPA-administered renewable funds. We are trying to figure out how to preserve and leverage the $6 million of annual spending that is currently being accomplished through the C&RD mechanism.

Rachel commented that the $6 million was really the minimum investment that could be made through that mechanism in this rate period. So we should talk about a mechanism that people like and could get behind and then figure out how big the budget needs to be. Elliot pointed that out as the second to the last option actually increases renewable spending.

Deb responded to a question from Mark that the amount of the current renewables discount depends on the type of resource. Example: A customer makes a purchase from a wind plant. The purchased output is totaled for the year and for each MWh purchased and generated the utility would get a credit for the amount shown in Table 1 for wind. [Table 1 is in the C&RD manual.] Credits listed in Table 1 vary by resource type. [Wind is $15 per MWh]. Multiply the Table 1 amount by the amount of MWh generated and purchased in the year and submit a claim. Scott added that the maximum you can claim is half a mill per kWh times your net requirement. Each utility has a pot of money from which to draw those $10/$15-MWh claims. Each utility has a cap. Deb said spending more would mean either making the pot bigger or shifting additional expenses to those utilities making investments.

Carel commented that many coops in Oregon couldn't afford even one commercial turbine with the existing Table 1 subsidy [credit] of 1.5 cents per kWh. Going forward, will utilities be able to exchange these credits? Because very quickly utilities hit the cap, where annual [green pricing program] sales are not high enough to support the project. Tom O'Conner replied that the easiest way for a small utility to meet its renewable obligation is to purchase EPP (Environmentally Preferred Power) from BPA and take the EPP C&RD credit.

That brought Rachel to question what happens if the BPA's stable of renewables was all used up. The whole variety of customer needs should be considered.

New Generation
Elliot then asked for comments about whether the current [status quo] C&RD program does a good job of encouraging new renewable generation. Angus noted that most around the table entered "1's in the matrix for the status quo option. [Meaning most in the room gave the status quo option the highest-ranking possible.]

Many public utilities used the discount for the Nine Canyon project. PacifiCorp used it for Rock River, EWEB and SCL used it for Stateline [KPUD uses it for Roosevelt landfill gas project]. Tom Osborn gave the example of a small utility [Wells] that used it for low-head hydro coming out of a stream and replacing an existing hydro that would not have been done otherwise.

Deb noted that in FY 2003 there were 12 utilities that made claims on large resources and four [corrected from misquote of two] on small, distributed resources. Of those 16 [corrected] claims only 10 [corrected] projects are involved. Angus said that seemed like not a great success, but Deb said the utilities are happy and the existing program has gotten them to think about renewables. The point is that the majority of the participants in the "R" component of C&RD are EPP purchasers, which is composed of existing resources, and that maybe the program is not incentivizing new development. Scott said Rock River took five years to get C&RD Board approval for the credit, and that BPA seemed to want it. Lyn Williams noted that Rock River was a condition of support from Scottish Power and Light. [???]

Rachel commented that one way to address Angus' issue [that the program should incent incremental development] is to think about the ongoing nature of what we want to reward. Eugene noted that the next rate credit will only be a three-year program--our rate credits can only go as long as the rate period. So how much can the C&RD really accomplish [in 3 years]? For Carel, this three-year term is a major issue: With small project financing, you need a 15-20-year time horizon. Can BPA extend the C&RD program for 15-20 years so that financing works?

Everyone said no, and Deb said decisions affecting rates could only be made for each rate period—the C&RD credit was intended to take the sting out of the investment initially and tip the scale on the investment, not to subsidize the purchase for its entire lifecycle. It's production based, just like the ten-year federal production tax credits, but for three years instead of 10. BPA can't obligate beyond the rate period.

For Carel, those 3 years is a major shortcoming. Oregon is pushing to get long-term contracts for 10 MW of small, distributed generation; it is essential to have some sort of long-term program. Tom O' Conner said that to get very small utilities into renewables, you must have something like EPP included in the C&RD program so that they can buy the tiniest piece. It may not be the newest development in wind, but you just picked up a customer you wouldn't have had before.

Angus agrees that, especially for smaller customers, you try to make sure they have a choice of doing a small project where their share of the money is meaningful, as with the "mutual fund" idea mentioned by Elliot, or with EPP. This works particularly if we continue to transition EPP so that the old hydro is a smaller and smaller portion and the new wind is larger. But that raises the question about whether BPA is going to acquire any new renewables, or whether there is some other way to change the composition of that EPP pool.

But he continued that it is important to distinguish between the larger customers, for whom this can be a piece of a large project, and the smaller customers who either must aggregate--which sometimes works and sometimes doesn't--or do just small projects like a small hydro or buying a small piece of something. It doesn't necessarily have to be from BPA. There is a range of choices available and we need to maintain that for both large and small customers.

Rachel wondered if the renewable rate discount needed to be a little bigger to accommodate a greater menu of options for a greater number of utilities. Angus added that there are other ways for BPA to augment their EPP pool, like buying a bunch of Green Tags from White Creek, so that the composition of the EPP pool is changing and smaller customers in aggregate are incenting larger utility-scale projects.

Deb summarized that in the absence of need and with uncertainty surrounding allocation or net requirements, it is difficult to expect new generation acquisition by individual public utilities, especially within the three-year rate term. So maybe a change of focus is needed. A big problem for the utilities and BPA is that we don’t know who will be responsible for serving load growth.

Rachel thought the way it works is if you purchase some EPP, you are just substituting it for some other federal power that you already get from BPA, so ultimately you still get the same total power from BPA [if you buy EPP]. Angus wanted to know if BPA’s revenues [from EPP and Tag sales] could roll forward into new incremental renewable resources. He wondered if there was a way to stipulate that EPP dollars spent by utilities, whether they are C&RD based or not, should be dedicated to new renewable resources? Tom O’Conner said the EPP premium is credited against the total spent on renewables. Deb clarified that premiums offset the cost of existing wind resources.

Eugene said differences between existing and new resources need highlighting: The current C&RD definition of new resources is anything built after May '99. Angus thought that was fine and that it is OK to support projects where there is still net red ink, as a way of addressing Carel's issue of how to get 20-year support from a three-year program.

Rachel noted the May '99 date shows people who stepped forward early and made those investments that they were worthy investments to make. To incent something different now, we need to think about whether it is reasonable to change that date in a way that accommodates those investments as well as new investments.

Deb mentioned a sliding scale. But at this point, Eugene suggested the group refocus on what they were specifically trying to solve. Deb replied that the original goal was to get more MW on the ground. That still works for BPA and Rachel. But Eugene questioned whether the goal was getting the utilities or BPA to put more MW on the ground.

Goals

Deb said she believes the goal is to get the utilities to put more MW on the ground. But it is not really fair to put that totally on the utilities given the uncertainty regarding net requirements, uncertainty about who is meeting load growth, and the small load growth over the 3-year rate period.

Tom O'Conner said the goal was a management budget target of roughly $21 million. So one of the questions is, do we want to put the $6 million into the $15 million and have it spent basically by BPA, or do we want to take some piece or all of that $6 million and have it in some kind of rate-credit mechanism--either the status quo or something else.

Angus would put more priority on incentives, which result in more new renewables, with a second priority being on customer acquisition rather than BPA acquisition, but not to the decrement of new generation. First, you get new generation. Elliot said that basically fits BPA's current policy, to maximize the amount of new generation built in the region with existing funds available to the program.

Carel would like to see a certain amount of money set aside for more distributed generation, for the benefit of rural economic development, to try to pull in smaller coops to get involved in renewables, even though large wind farms would be more cost effective--a European model.

Rachel, noting the varied ways utilities use the C&RD for renewables, wanted to focus on getting new MW to happen. For what BPA has in the EPP now, would BPA just sell that on the market? Or is that just part of the PF and would go to customers as a general matter, with everybody getting a little?

Deb explained the process: We have an inventory of the output of the wind projects. First it is dedicated to EPP buyers; then what is left over on the cutting floor is sold as tags or RECS (renewable energy credits).

Thad questioned how much inventory is available that is not selling as EPP at this point? Deb said it's about 50/50--the inventory is about 60 aMW of wind in total.

Rachel mentioned another option: If certain utilities are using the C&RD right now for existing projects, and we don't want to penalize them, but the real goal of this is new renewables, is it possible to have a couple of levels? Level 1 would be the most desirable--new MW from today forward--with a certain number of dollars set aside for that; level 2 is still new renewables but post 1999. Rachel thinks the pot has to be bigger to accommodate that. The State of Pennsylvania just passed a bill that almost does it. You don't have to do both levels, but you can, one being more desirable than the other.

Scott noted that in PacifiCorp's financial analysis for the Rock River project, all they had was five years because at that time they knew they would only have the C&RD discount for five years. He has no problem with a five year-term. They do care about the existing project--it is built and running and has received five years of credit, which is all it had in the original Board presentation where it was approved. He realizes others are in a different situation and probably need the continuing credit for an existing resource.

But Eugene noted that PacifiCorp was able to use their entire C&RD credit. In the conservation portion of this discussion, you won't be allowed to do that; they won't allow conservation money to be spent on renewables at all. Scott agreed, which is why he likes option 1, the status quo.

Most in the room agreed. On the phone, Annick said her members would only be supportive of a $6 million discount if it were connected to the conservation discount [flexibility preserved]. Otherwise, they don't want to see a budget increase [rate increase] for $6 million. Retaining the flexibility and local control over local investment is most important for them. They don't see that being worked out through these other options as well as is currently constructed in the C&RD.

Lyn agrees on supporting the status quo, but with some tweaks. Tom said the status quo is the only option on the matrix that seems to bridge the SLICE/Requirements divide. The status quo doesn't push BPA into a big acquisition program, which concerns the SLICE participants, and at the same time there is a mechanism for Requirements customers within an existing budget.

Rachel, speaking for the advocacy community, identified her continuing position as follows: Whittling BPA down to its existing resources and having utilities do everything else might be OK, but only if we can find a useful and productive way for utilities and BPA to continue robust investment in conservation and renewables. Maybe the current program is a great program and serves lots of needs and we should just make a few tweaks and leave it alone, but it in itself it will not be enough to satisfy her. The Council has renewables in its plan. How much need for power do utilities have? Something to look at is a mechanism that continues some reasonable but steady implementation of renewables over time. And we should continue to learn from the investments we make so that ultimately we achieve the targets discussed in the Council's plan.

Carel seconded Rachel. It is nearly impossible to work with the local coops and talk about incentives without having long-term contracts and long-term supporting programs. We must look at this issue, along with interconnection requirements and fair rates. Currently, the way the C&RD is structured doesn't help the local landowner who wants to put in some renewables contracts. He supports a PURPA type structure, a guaranteed incentive [per kWh produced] lasting 10-15 years. Then you can get some lending--a bank sees it as a low-cost, low-risk type of investment. That is where we have to go to really promote renewables throughout the state and not just in a few large wind farms in the Northeast.

Elliot concluded that most people like the status quo and some want to keep the box open. It would be useful if Rachel would put a proposal in writing. But we need to be prepared for a backup plan if the C&RD program does not survive the regional dialogue in its current form. Deb added that the Conservation Group has clear marching orders from the Administrator based on the Council's power plan. To meet the Councils targets, the Conservation folks must hold the line on the lack of flexibility issue. We, as a renewables program, are more like the tail on the dog.

Angus agreed, but said if this process just ends up being a discussion about whether there is an additional $6 million in the budget and the rate base for renewables, and that that has a rate impact, the hand count will be fairly predictable. He suggested that the group focus on what is the best way to use that $6 million. BPA will need to decide this no matter how the C&RD discussion is resolved. He also suggested that the group spend some time in the first matrix column thinking about what is going to encourage new renewables and talk about a sliding scale that might, for example, allow a higher amount of money per average MW for "new new" resources and a lower amount for "old new" resources, which also tend to be EPP and tags.

Lyn wanted to revisit Deb's comment that perhaps the Council will revise their plan based on comments. The Council's power plan probably won't change much from what we saw in draft. But they received a lot of comments on the huge size of conservation that they assumed in that plan. One of the big problems with conservation is that it is extremely capital intensive. They used levelized numbers in the Councils plan. To try to gear up for this much conservation as quickly as they are indicating will have a huge rate impact on the region and it's debatable whether that is a good thing or not.

Deb reiterated that Mike Weedal and his Conservation colleagues have strict marching orders from the Administrator as to what they are supposed to accomplish. Lyn added that if this was the case, then the regional dialogue isn't much of a dialogue; it's a diatribe from BPA, because the customers have been saying we should stick with the existing C&RD program even though it might need some fixing. Lyn is not arguing against conservation or renewables; it's the flexibility to be able to do either conservation or renewables that is on of the really good features of the current plan.

Rachel noted that with this very robust conservation target on the table, it would take more dollars to accomplish it than are currently in the C&RD program - even if every dollar was spent on conservation. Is there a way to conceptualize a C&RD program that would have a guaranteed minimum for conservation, for the certainty of funding, a guaranteed minimum for renewables, and then some flexibility in the middle?

Eugene thinks it will only work if they are entirely separate pieces, tagged on or amended onto the C&RD. The Conservation people will not give up one dime of their money for any renewables. They have indicated that by basically saying they will not allow solar hot-water heating or customer-side photovoltaic, so he doubts they will allow Green Tags and other things.

Mark, speaking for the TBL, emphasized that it's not just producing the energy, it's getting it to the customer. He highlighted two things the TBL would like to see happen: Better use of BPA's existing infrastructure, and construction of new infrastructure in places that benefit those who are either putting up generation or taking it to load. Some types of renewables, he said, are capacity challenged. The energy component is a third of their actual required capacity, and some proposed energy-based tariff rates along those lines create hardships between users and the system, especially when a resource is located in the Northwest, exported extra-regionally to California, and other point-to-point customers must pick up the tab. We should be thinking about how you can create the best leverage to get the most wind or renewables integrated into the system and used locally by NW customers. Mark thinks the facilitation role that Elliot's group has been creating via the shaping and storage product--a buy-down of the point-to-point transmission rate for wind facilities that would otherwise need to purchase more capacity than they would use--makes sense from the TBL perspective and might help reduce transmission constraints. Although it is a small fraction of the power cost ultimately to the consumer, it can become very important in being able to better utilize the transmission capacity we have, including encouraging the use of underutilized transmission capacity. Think about this as you structure your incentives.

Angus then asked why the TBL doesn't develop a schedule for rewarding new resources that help meet system needs with some discount on their transmission costs? Mark replied that he didn't know. Scott said that some who have already paid don't want their charges increased to support it. But Angus answered that it would only result in increased net value to the system, and they would not pay any more. Mark then mentioned that the TBL has a nonwires effort where there is actually value being placed on having a resource located in a particular place, though the nonwires effort is more focused on the load side rather than the generation side.

Scott questioned why small utilities aren't partnering more with the larger utilities, when most large wind projects need a minimum number of turbines. Rachel responded that some small utilities are partnering with each other, like the Last Mile guys, and that is a wonderful model. But she said some small utilities are just nervous and prefer dealing directly with BPA as opposed to having to risk money or make decisions, and some just don't have the extra staff to deal with it. So, they do what is easiest. That's why it is important for BPA to have a lot of different ways that utilities can participate.

Tom O 'Conner said that with the current structure for the very small Requirements customers, the situation needs to be either BPA buying in and partnering with someone else, a private entity, or it needs to be a BPA product.

Angus noted that now there is useful data, not available five years ago, that the C&RD discount, as it is presently constructed, was a factor in the Nine Canyon project and for as much as 300 MW in the Last Mile White Creek wind project. That is more than he would have expected to get out of this program. So he is willing to think about going forward with something like the status quo, but there are some tweaks needed. He reiterated the notion of a sliding scale that would tend to incent "new new" renewables rather than just rewarding the intermediate stuff without at the same time pulling the legs out of the post-'99 resources. He also repeated the suggestion that if the status quo program went forward, presumably still with that minimum $6 million for renewables, that maybe there should also be a minimum for conservation. That might be a way to address some of the concerns that Mike Weedall and others have expressed about how they will meet their conservation targets. While there remains a preference for customer-initiated projects, BPA should continue to act as a backstop up to the full $6 million. If the $15 million plus $6 million is the amount of money available, to the extent that customers are not using some of the $6 million, BPA has at least the option, even the responsibility, to find opportunities to use that money effectively in bringing new resources in.

Eugene said the system is in some ways set up that way now. You get a different rate for Green Tags, solar, and wind. His concern is that there is a limited pot of money. So where before Scott could spend his whole C&RD discount to fund renewables, he now won't have that much available. Annick said that's only true if you still link them. So BPA tracks that and makes sure that only $6 million out of the $86 million pot is used for renewables. Rachel questioned if this was $80 million on the Conservation side, is this twice the existing total C&RD?

Eugene and Annick replied that this is the total conservation budget for the next rate period. Then what part of all that is the C&RD rate credit [acquisition]? Annick said that wasn't decided, so they have been using a placeholder of about $35 million.

Rachel responded that Conservation sets their program up within the Council plan, which dictates how many MW are to be achieved and how much they are to cost and over what period of time. Whether you agree or not with the targets is another matter, but that's how it's structured. We might consider discussing what kind of piece would be reasonable for renewables in the region, what portion do we think utilities should be doing and what portion we think BPA should do, if any, and try to figure out a program that could best incent that goal. Eugene replied that at this point there's really not enough time for that. Annick added that we are in low resource balance more or less through 2011 [if BPA only serves public loads]. How do we know how much to build?

Deb reiterated that the overarching problem is the uncertainty over who is serving whose load/load growth. The IOUs know what load they have to serve and are acquiring renewables; no one else knows and is not making acquisitions.

Recourse
Elliot responded to Lyn's previous comment about the regional dialogue really being a BPA monologue. We want to make these sessions useful and come out with something productive. But nothing clear is emerging, with the C&RD program in flux and not knowing what is happening with the Conservation folks. The BPA regional dialogue proposal will emerge in a few couple weeks and the Conservation Group will have made their decision. We will need to build upon their decision. If the conservation program

maintains the status quo, many will be happy and then perhaps we can add to it or tweak it to get a few more incremental renewables done. But Elliot worries that if the status quo is not adopted; we will have no fallback position unless we create one. He will take back the message to the Administrator that, through the regional dialogue process, we heard the same message [preference for status quo] in the renewables group that you are hearing in the Conservation Group: The consensus view is that a C&RD-like mechanism akin to the existing program, with a little tweaking and some potential for growth, is the right way to go. Then we regroup after the New Year and see what we have to go on. Remember, he said, we are talking about the 07-011 period. So we still have some time to figure this out. Deb added that a couple of utilities are setting up to take advantage of the production tax credit, so it would be good if we got specific about the tweaks sooner rather than later.

The $15 Million

Tom O'Connor asked if BPA wanted utility input on the $15 million? Elliot said we need to have another session on that. We are outside the comment period on the regional dialogue, but he's open to more discussion on any of this.

Lyn added that some sort of a sliding scale [under a status quo scenario] that really rewards "new new" renewables a little more generously than "old new" renewables seems to make sense. It seems like that could apply to the $15 million or the $6 million. Annick commented that if the geothermal project does not get completed, that would free up a lot of money from that $15 million pot that could be used for new renewables.

Rachel said that since the beginning of the last rate period, when that $15 million has been invested it has been in "new new" renewables. She congratulated Lyn and her utility on the new 75-MW expansion of Klondike wind project, in Sherman County, the economically poorest county in the region, and for following through on their integrated resource plan. The original 24-MW project contributes 10 percent to Sherman County's tax base.

Facilitation

Annick questioned BPA's role as facilitator and whether BPA has done any studies or analyzed how much more wind our system, both transmission and hydro, could integrate above and beyond what is currently being integrated and the impacts thereof.

Elliot said the PBL has focused on 1000 MW of nameplate, 330 MW average, which has been the basis of the pricing of our integration services. We have not hit the level where prices start really escalating, but we are going to look at it more closely. We have told the region that we are comfortable offering 450 MW of integration services over the next several years. With more operational experience, we may get some better feedback. Mark added that with luck this year there might be 400-600 new MW of wind before the PTC expires [12/31/05].

Annick would like to see a fact sheet on this. Mark said the TBL has a wind fact sheet about ready for distribution that shows the location of existing wind facilities and ones that are proposed. Rachel's web site also has a map and a spreadsheet showing this information.

Scott said PacifiCorp has been trying to put together a deal with BPA for storage and shaping services, but BPA's limitation is obvious--they can't offer any products beyond 2011. But there are other entities that can go out further and integrate wind past 2011 using the hourly market, like PPM. Rachel added that BPA is not the only entity that can integrate renewables in the region. PacifiCorp is integrating renewables, as are PPM, Avista and Puget. Wind is really treated like negative load. The test is to figure out what the incremental difference is when you add wind to the mix. BPA has a great system to do this with and they are obviously in a leading position but are not the only ones.

Elliot responded that BPA is a natural provider of these services, but can't transact beyond the next rate period without throwing in some major caveats. So, PPM may step in, use the hourly market and synthesize our storage/shaping services using the real-time market. He has talked to them about this for two years. If all BPA ever accomplished [as far as storage and shaping services] was to lower the cost of services from $12 to $6 and set a tougher benchmark, maybe that should be considered facilitation. But it hurts BPA that we can't transact long term. PPM will be willing to go out and make markets for integration for their own projects and make lots of money. So, BPA will always have to deal with this term issue and risk--what do we do with all that back-end exposure in 2011? We will have to face this question with BPA's renewables program. How would it look for us to sell integration services that help utilities manage intermittent resources, but not taking on the 20-year exposure, especially not as principle.

The utility says to wind developers, go out and develop resources and bring me firm power at my system border. Wind developers say to BPA, sell me 20-year integration services so I can deliver firm power to the utility. This model is broken. Here's the way it should work: The utility will go out and buy wind for 20 years at the bus bar, hopefully finessing the relationship with the PUC to make sure this becomes a recoverable investment, then come to BPA and buy five to seven years of hedging instruments to manage it. And we'll just roll it forward. We are always positively predisposed to offer these services. But if BPA doesn’t don't know what the world will look like post 2011 [allocation?], how can we sell someone congestion service or storage and shaping service?

Angus questioned if they could roll a five-year contract forward every year. Elliot said it's something to think about. He went on that the regional dialogue calendar has slipped a few weeks. BPA’s record of decision is now coming out in mid-January. Mark asked if the ROD would provide specificity over whether the C&RD program still exists and how much of the budget is dedicated to renewables. Elliot said that was the intention. Anyone with further comments or tweaks to propose is still welcome to submit them--they will be appended to the meeting notes.

Meetings
The last Conservation meeting is 1/11, RODS is 1/112. This group will meet Wednesday, 1/19 1:00-3:00 pm @ BPA HQ.