REGIONAL DIALOGUE TECHNICAL WORKSHOP NOTES
Wednesday P.M., January 8, 2003
BPA Rates Hearing Room, Portland, Oregon

Approximately 20 people attended, with one person joining by phone.

Key Contract Issues – Take or Pay, Retail Access, Sequencing

Dale Latham (BPA) recapped provisions in the Subscription contracts related to take or pay and retail access. The joint customer proposal adopts the Subscription policy for retail access, and says if requirements customers experience involuntary load loss, the power would go back to BPA to be sold on the market – we would take the risk, he said. We would market the excess federal power and any difference in revenue would be the customers' responsibility, Fred Rettenmund (BPA) clarified.

BPA proposes to provide coverage to full and dedicated-resource partial customers for mandatory retail access losses, but we aren't inclined to provide it for others, Latham said. For the dedicated-resource partial customers, we need to think about whether to extend the coverage beyond 2011 for the full 20-year contract, he continued. It may pose an additional risk we don't want to take on, Latham added.

We are trying for the minimum amount of modification to the current contracts, John Saven (NRU) pointed out. This presents another set of issues to engage, he said.

For state-mandated retail access, it's the state's responsibility to deal with any stranded costs created, Steve Weiss (NEC) stated. He suggested that if BPA's rates are high for a period and BPA customers are locked in, the states could allow retail access and shift stranded costs to everyone in the region. I don't think BPA should take on that risk – the state legislatures should deal with it, Weiss said. You definitely should not go beyond 2011, he added.

The purpose here is to address the nature of the deal, a long-term, take or pay contract, Rettenmund indicated.

You have data from Oregon on this, Saven pointed out, adding that there has not been a stampede to retail access. I'd foresee a very difficult time convincing the utilities to give up the protection they now have until 2011, he added.

It's a basic stranded-cost issue, Weiss said. BPA should not allow itself to get into that position, he stated. BPA should be free from that risk, Keith Knitter (Grant PUD) agreed. BPA should not backstop others' choices, he said.

Is there a distinction between state and federally mandated retail access? Rettenmund asked. Yes, the feds will protect themselves if they mandate it, Paul Murphy (Golden Northwest) responded.

Joe Nadal (PNGC) pointed out that Slice customers, who don't get the benefit of retail access coverage, should not be subject to the cost of providing coverage to others. Slice customers don't get the benefit and they shouldn't pay for it – the costs should stay with the beneficiaries, he said.

If a retail customer leaves a utility and then comes back, is that load growth? Knitter asked. A retail customer that leaves would incur a charge for coming back, Rettenmund said.

Latham pointed out that if retail load returns to a requirements customer, the utility pays a return charge to BPA, but if an IOU residential or small farm customer returns from retail access, there is no charge. You don't serve 100 percent of our residential and small farm load, you serve about 40 percent, Scott Brattebo (PacifiCorp) responded. Also we have to pass through all of the benefits to those customers, he said, adding that the issue might have been more relevant when the IOUs exchanged 100 percent of their load.

Latham raised the issue of BPA's data needs to track what is happening with retail access. The current contracts say that BPA will have the data it needs, he said. Tim McCoy (BPA) pointed out that BPA needs to know how the new retail access provider is going to follow load. We are "picking up the slop" and the cost of serving the shape of the load, he said.

You need to make sure your load variance charge is adequate to cover the situation, Murphy pointed out. McCoy said it could pose logistical problems to track a large number of meters if there is a full-scale move to residential retail access. Linc Wolverton (ICNU) suggested BPA could approach it similarly to the way imbalance charges are handled on the transmission system.

Mark Stauffer (NWE) said the situation in Montana is working out, so far as he knows, with a system of imbalance charges. He suggested BPA deal with the data issue connected to retail access if it occurs.

Latham offered a proposal for sequencing the activities needed to reach new contracts. A couple of principles came to mind, he said: both customers and BPA need adequate lead time to meet their needs post 2006; and customers are asking BPA to reduce its footprint, so BPA will provide less and the customers will provide more.

When will you have your proposal out? Weiss asked. January 31 is still our target date, Latham replied. We won't make that deadline, but we don't have a clear direction yet on an alternative, Rettenmund acknowledged. We want to focus here on the linkages between the contracts and the rates, and the general order of things, he said.

Looking at this proposal, it appears you don't think you need a new EIS, Jim Litchfield (IOUs) pointed out. That's right, the staff is thinking we don't need a new one, Rettenmund responded.

It is important that you get your proposal out as soon as possible so other customers become engaged, Knitter stated. These meetings are open to everyone, Rettenmund replied. There is a perception that this is just BPA talking about the customer proposal, and it will take your proposal to get people engaged, Knitter said. Latham indicated the current discussions are useful for BPA. We don't want a BPA proposal that is "DOA," he said.

Is it useful to draft the contracts before the ROD is issued? Michael Early (Alcoa) asked. We don't see this as "a wholesale rewrite" of the current contracts, Latham responded. With Subscription, we began drafting the contracts well ahead of the ROD, he added.

In the last go-round, the draft ROD reflected the Regional Review, but the final ROD was vastly different, Stauffer pointed out. If history is any indication of what could happen, does it make sense to start so early? he asked. We could add a step in here for "a true-up ROD," Latham suggested.

Our situation now in dealing with the customer proposal is different than it was in dealing with "the 2001 cliff," Tom Miller (BPA) pointed out. The best approach is to sign off on the policy and then do the contracts – the ROD then guides the contract development, he acknowledged. But there are difficulties with getting into too many iterations, Miller indicated. If the Subscription contract is the basis, there is a good amount that can be done now; there are obviously still issues open – you want an early start, but contracts can't be completed until the ROD is signed, he stated.

Rettenmund asked about the timing for customers to know the rate before deciding whether to sign a final contract. When people sign a new contract, they suspend the old one, Early responded. He asked if BPA would have two rate cases, one for the old and one for the new contract. When would two rates be necessary? Rettenmund asked.

This doesn't look like it works for customers without a long-term contract, Murphy said of the sequencing proposal. The massive change to the costs last time was because you let a lot of new load come on – how do you avoid that this time? he asked. There are so many interrelated rate/contract issues, it's hard to imagine getting contracts together that people will sign without considerable rate work, Latham responded. Murphy suggested moving the rate case forward considerably and shortening the time period customers have to consider whether they want the contract.

The further you are from October 2006, the greater the uncertainty, Rettenmund responded. A major uncertainty is load, Murphy pointed out. Start the rate case earlier and compress the time customers have to make a final decision on the contract, he said.

I don't share that view, Saven said. I like the schedule, he said. Our advice is to come out with "a full loaf" – these timeframes are reasonable to do that, Saven said. I'm anticipating that we can have only one set of rates – I'm not sure we need to be concerned about multiple rate cases, he added. Saven pointed out that the load uncertainty is not great – we're either under the new or old contract. There is some uncertainty, but the zone is probably manageable, Rettenmund responded.

We need to know where we are going to make our purchase commitment, Murphy stated.

Weiss suggested making the paradigm in the new contract as similar as possible to the old, so rates can look somewhat the same. Both should include tiered rates, he added.

People are making an assumption that differs from my thinking, Latham said: customers have an off-ramp, but those who sign are saying they are in unless we're vastly off from the rate target.

The schedule is pretty good, Nadal said. To facilitate the decision, we need as much information about rates as possible, he continued. Spell out the rate principles in the ROD – have cost-allocation principles in the ROD and in the contracts, Nadal suggested. The more the customer knows, the better, he added.

If you want to have rate targets in the contracts when they are offered, there will have to be some basis for them, Murphy said. For the rate target to have meaning, you have to have rate workshops along with the contract drafting, Early suggested. And the rate target has to be more than an upper limit, Murphy said. It has to be "an informed target," he stated.

One reason for the CRACs is that we didn't know the load we'd have to serve, Miller pointed out. We are trying here to know the load when we establish rates, he said. An additional complication is that if things don't work out the way people want, we have the possibility of having two rates and two sets of contracts, Miller said.

The point here is to try to reduce the uncertainty that existed last time, Stauffer commented.

There is a big problem for customers without a contract beyond 2006, Murphy said. We need to have time to make a decision about what we will do, he added. All customers need to know as soon as possible, Stauffer responded. At some point you could negotiate new five-year contracts with the five-year customers, Early suggested.

I don't want to have the tail wagging the dog, Saven said. If we can accommodate the five-year customers, I'm willing to think about it, he added.

At the same time BPA offers contracts, customers would give BPA a non-binding commitment about what product they want, Latham said in explaining the latter items on the sequencing proposal. We were thinking if customers know what they want, they could send you a letter and let you know so you would have that information to work with, Saven agreed. That would be helpful when we sign the ROD, Latham replied.

Adjourn: 3:00 p.m.