

**REGIONAL DIALOGUE PUBLIC WORKSHOP NOTES**  
**Tuesday, November 19, 2002**  
**BPA Rates Hearing Room, Portland, Oregon**

Approximately 30 people attended, with eight joining by phone.

**1. Welcome and Introductions**

Paul Norman (BPA) opened the meeting, noting that October 18 was the deadline for comments in the joint BPA/Council regional dialogue on the future role of BPA. We are now developing a proposal of our own and thought it would be a good idea to have conversations with the public during the process, he explained. BPA's plan is to have a draft proposal ready for public comment at the end of January, Norman said.

We will develop a policy proposal, he continued. Then in mid-2003, we plan to issue a Record of Decision (ROD), followed by contracts and ultimately a rate case, Norman explained. He noted that BPA believes its 1995 Business Plan EIS will provide coverage on any NEPA issues.

Norman announced that at the December 4 workshop, BPA will provide information on the direction it is taking on major issues. We'll tell you "what quadrants we're heading in," with the expectation we'll need subsequent discussion on the issues, he said.

The workshop schedule calls for two Tuesday sessions in November (the 19<sup>th</sup> and 26<sup>th</sup>) and three Wednesday sessions in December (the 4<sup>th</sup>, 11<sup>th</sup> and 18<sup>th</sup>). A couple of participants indicated they have conflicts on Wednesdays in December and others said shifting to Tuesday would not work for them. BPA staff said room availability might be a problem if the schedule is changed. Information about meetings and any changes will be posted on the regional dialogue web site, staff said.

**2. Objectives and Principles**

Norman went over BPA's principles for the substance of the regional dialogue and for the Slice product. These are the principles BPA's internal team is working with, he said.

Fred Rettenmund (BPA) said BPA has three basic objectives in the dialogue: 1) clarify its obligation to serve so infrastructure decisions can be made; 2) find a workable and sustainable approach to sharing the benefits of the FCRPS with the residential and small farm customers of the IOUs; and 3) determine load service to the DSIs post-2006. We may need others, he said, suggesting conservation and fish and wildlife (F&W) responsibilities might need to be addressed in the context of the dialogue.

In the Subscription forum, one of the principles was to spread the benefits of the FCRPS widely, with the focus on domestic and rural customers, Marc Hellman (Oregon PUC) pointed out. Is that still with us? he asked. Norman said the idea of securing predictable

benefits for the IOUs is part of BPA's first principle. We probably need to elaborate on that principle, he added.

Jack Speer (Alcoa) suggested adding "keep rates as low as possible" to the principles. Norman agreed cost-based and low-cost power belong on the list. Loren Baker (PRM) asked why BPA included the principles for Slice and not for other products. Norman agreed the principles are applicable to other products, and Terry Mundorf (WPAG) suggested retitling the list of Slice principles as "BPA's Key Principles Regarding Bonneville Products."

Norman said BPA would add to its first principle, elaborating on the "diverse benefits of the FCRPS" to which the principle refers. He said staff would also pull in things from the Joint Customer Proposal (JCP) pertaining to retaining the benefits of the system for the region. If there is nothing else, this is what we'll give the project team to work with, Norman said. We don't necessarily have to repeat everything about our interests now – you know what they are," Erick Johnson (PNGC Power) pointed out.

Hellman suggested the customers' first principle is different from simply retaining the FCRPS benefits for the region. It's about trying to align the customers' interests with one another, "so there's not so much suspicion," he said. We want to get long-term contracts that people feel comfortable with – we're trying to move in that direction, Rettenmund responded. We'll think about adding the idea of common interests when we rework our first principle, Norman agreed. Michael Early (Alcoa) suggested BPA stay with broad principles and avoid getting too specific.

Kevin Clark (Seattle) asked for BPA's view of the JCP principle #3, reduce BPA's presence in the wholesale power market. It's fine with us, Norman responded, adding that BPA doesn't have "a passion" about the idea. In the reverse, is there a negative with BPA being in the market? Clark inquired. There is, Norman stated. There's a risk associated with BPA acquiring to meet load, he added.

Our objective is to settle the IOU/public litigation, Jim Litchfield (IOU rep) said. Is that yours? he asked. Yes, we'd like to resolve the litigation, Rettenmund responded. Is it one of your objectives in the regional dialogue to try to settle the existing litigation on the BPA contracts? Will you look for a method to solve it? Litchfield asked. Yes, in general we are trying to get the litigation cloud out from over the contracts, Norman stated.

Is there a reason the BPA and customer objectives have to be the same, as long as they don't conflict? Howard Schwartz (Washington Department of Community, Trade and Economic Development) asked. It would be ideal to have them identical, Norman said. But that's not likely, so if they are reasonably compatible, wouldn't it work? Schwartz asked. Rettenmund said some of the JCP principles are okay with BPA, but others need further thought.

Paul Murphy (Golden Northwest) asked for clarification on BPA's principle #4, solutions should not require legislative changes. We are looking for a solution that doesn't require

a change of law and that doesn't have a lot of legal risk, Norman replied. We don't want a solution where we meet each other in the Ninth Circuit, Tim Johnson (BPA) added. Norman said BPA would redraft its principles based on the discussion.

I hope this will continue to be a collaborative effort, Scott Brattebo (PacifiCorp) stated. My idea of success would be to get to the end and have a set of objectives and a proposal that is agreeable to all parties, he said.

We agree, Norman responded. But we might bump up against the end and be faced with resolving issues or getting the BPA proposal out, he cautioned. I agree, but I don't know how much consensus we'll have, Norman stated.

We've advocated a need for speed, but if we get to the first of January and find that taking more time would get us to consensus, we may ask for more time, Mundorf said. We hope you're open to it, he added. If a little more time would serve us well, let's not rush to judgment, Lyn Williams (PGE) agreed.

### **3. Ground Rules**

Rettenmund laid out general ground rules for the workshop, such as giving everyone a chance to speak and staying on topic. We'll work hard to notice the meetings and the agenda ahead of time, he added. So far, there isn't a work plan with ordered topics, but by December 4, BPA will have a better idea of specific issues and when they might be addressed, Rettenmund indicated. On December 4, I expect we'll lay out our directions in the morning, and in the afternoon, we'll work on them, he added.

Litchfield asked if there would be work groups, and Rettenmund said that would be okay as long as attendance is open to everyone.

Clark asked what the ROD would address and what decisions would be made in it. Rettenmund indicated there wasn't a definitive answer. He also said the group needed to talk about sequencing events. At the end of January, we will have a policy draft, which will guide us on contracts, he said. The ROD will ultimately speak to things in the draft, but it may go beyond that, Rettenmund explained.

Dale Latham (BPA) recounted how BPA's 1998 Subscription process unfolded, with BPA publishing a broad-scale proposal, which was subsequently worked on and revised. We then embarked on designing rates and contracts, which took about 18 months, he said. That type of process is what we were thinking, Latham said.

Let's be clear about what we're deciding when, Clark advised. Let's get a road map – "it was fuzzy" in the past, he added.

### **4. Issues**

**Long Term Contracts.** One of the comments in the public meetings was that customers want long-term contracts, Rettenmund said. BPA is thinking 20-year contracts, including the IOU residential and small farm customers, are the way to go, he stated.

In Subscription and the Regional Review, the goal was not to have all of the contracts expire simultaneously, Murphy said. Is that no longer a concern? he asked, adding that it seems there might be a benefit to BPA of having staggered contracts.

My customers want long-term contracts that expire simultaneously, so “there is no cherry picking,” Mundorf responded. Rettenmund acknowledged there is a tension for BPA between having “a cliff” when all contracts end and making decisions about its obligation to serve. We want to solve the obligation-to-serve issue, he added.

Are you comfortable with staggered contracts? Clark asked. Some customers could keep their current contracts and others could opt to sign new ones, he pointed out. Is that acceptable? Clark inquired. BPA will honor existing contracts, Rettenmund stated. But BPA would prefer to have things work simultaneously, he added.

Is it possible if a customer doesn’t take a new contract, there won’t be one available in five years? Early asked. We don’t know yet about negotiating a follow-on for existing contracts, Rettenmund indicated.

That will be the customer’s decision, Clark said. But if we know how the follow-on will be handled, we can make a better decision now, he added.

Latham said BPA will have a specific proposal on options for customers who decide to retain their current contracts. We are considering two options: first, we could negotiate a follow-on contract to take effect in 2011, with the customer deciding in 2004; second, a customer could take the terms available in 2011, i.e., defer the negotiation to 2010.

The JCP states the latter, Mundorf said. And according to the JCP, if a customer doesn’t take a new 20-year contract, the alternative follow-on offer would still expire with the new contracts, he indicated. John Saven (NRU) said the JCP respects the rights of a utility electing not to sign a new 20-year contract.

Does the JCP prefer that its option on contract term be the only option? Latham asked. The JCP doesn’t address a shorter contract period, he noted. Mundorf said because of the possibility of an allocation, the option should be for contracts to expire simultaneously.

In the JCP, you’ve suggested that after BPA receives all the signed offers, we share back that information so you can decide collectively whether to proceed, Latham said. BPA may also want to consider that information, since there could be things in the new contracts that create risk for BPA in contract administration, he added. We are likely to have a mix of contracts, and it’s an issue to be reckoned with, Rettenmund agreed.

We are trying not to contemplate drastically new contracts or different rates, Erick Johnson said. We're not proposing new products, and we may contemplate fewer products, he added. Our view is that if we can use what's in the existing contracts, we ought to do so, Rettenmund said. We're thinking that you could take the requirements contract and plug in a couple of new things – we don't see the differences between new and existing contracts as substantial, Mundorf concurred. This is not a "start-from-scratch" exercise, he added.

Rettenmund suggested BPA will want to incorporate a few things to reflect lessons learned from the current contracts. Is this going to be "open season" on Slice? Clark asked. You've made some proposals to change Slice, and we have our own list of things we need to talk about with Slice, Rettenmund responded.

The staff's question was whether we would be fixing some things or "starting from the ground up" on the contracts, Latham indicated. Now it's clear, he added.

If there is a requirements product, we are looking for it to be the same for all customers, Rettenmund said. We are looking for a generic approach to each type of product, he added.

We need to decide what we will decide when, Latham pointed out. BPA's decision point is when BPA offers a contract, Mundorf said. The notion of the offer is that BPA has decided, he added. When a customer signs a contract, they are presumably also comfortable with it, Rettenmund said. So what about the tallying process? he asked.

There has to be a point at which we see if the fundamental objective is being served, Mundorf responded. None of the alternatives for doing that is graceful, he added. We need to meet the goal that the region is moving in the same direction on this, Mundorf indicated. No one wants to be the sole-surviving Slicer, Clark observed. And would we want to have one Slicer? Rettenmund responded.

### Sequencing

The joint customers may need to think about the issue of sequencing, Mundorf said. He suggested the issue be reserved to the next meeting.

Some policy direction in 2003 about the 2007 rates process would make this dialogue more successful, Clark said. We need to engage on that, Rettenmund agreed.

We need to know BPA's rates when the contracts are signed, Murphy stated. But we need to move forward on the contracts before the rates are set, Rettenmund responded. We need to know what we are getting into, Murphy replied. Last time around, "BPA and the customers were harmed substantially" because they didn't know what they were committing to, he added. The issue needs discussion, Rettenmund agreed.

Rates and the expectations about them will control the contract length, Speer pointed out. BPA needs to know that the contracts will be doable – otherwise, it could have customers that go bankrupt and contracts it can't enforce, he said. When a certain level of rates is reached, some customers can't consume any more, Speer added.

Kevin O'Meara (PPC) pointed out the difficulty of a world in which some contracts have rate certainty and others don't. BPA's rates always vary, depending on things like water conditions, he added. I'm not suggesting customers be treated differently from each other, Speer responded.

The sequencing and the linkages are a big issue, Rettenmund said. We need to work on this next week, he added.

None of the rate estimates for the future work out to be right, so I'm wondering about the value of speculating, Schwartz commented. We could have an idea about the range, but in there's no certainty, he said, pointing to the experience with rates from 1999 to 2001.

We'll talk about rates on December 4, Rettenmund stated. BPA has an issue with the period for rates and what is appropriate, he added.

Steve Weiss (NEC) said his group has a proposal on DSI benefits. He suggested the DSI benefit not be tied to the rate case, but to a market index. Weiss explained how such a mechanism might work, adding that the idea is a DSI benefit that floats with the market.

**Meaningful and Enforceable Concept.** Meaningful and enforceable is an issue of broad interest to the customers and others, Rettenmund said. The JCP says that customers don't have a meaningful mechanism for participating on costs, which raises the question of whether we need a better construct for the rate case, he said. Rettenmund noted there is a lot in the JCP about costs, including augmentation, the IOU formula for payments, load growth and an off-ramp.

Geoff Carr (NRU) indicated the customers had not agreed on costs. It would be a good topic for a work group, he suggested.

A "to do" for BPA to consider is to get the rate case back to where it was in the past, when customers could give input on the revenue requirement, Williams said.

A couple of things helped to put downward pressure on costs in the past, Murphy pointed out: the Programs in Perspective process and contracts that gave customers "an out." Programs in Perspective was very visible and customers had an opportunity to discuss costs, such as fish, Murphy indicated. There was also a countervailing force on costs when customers had an option to get out of the contract or cut back their take, he said.

Customers need to be able to say, if rates rise above "X", we have options, Clark stated. "The emphasis should be on staying below X," since an off-ramp is not the best answer

under many market conditions, he added. The people who pay the bills need some certainty about what it will cost if they sign a 20-year contract, Clark said.

It's a two-way street, Early pointed out. BPA needs to know it can collect on the contracts, he said. There doesn't appear to be enough incentive to keep costs down – the question is, how do you introduce market discipline into the contracts, Early said. BPA has to suffer market consequences if it doesn't control costs – we have to be able to respond by taking load off BPA, he added.

You could have a contract remedy for some costs, but not others, Weiss pointed out. For example, the WPPSS plant should not be “an escapable cost,” he stated. “The back-pressure now on costs is yelling and screaming,” Weiss said, adding that it does have an effect, since BPA is now working to cut costs. If the joint customers accept the contract remedy for costs, there should be no reason to declare a hydro emergency for financial reasons, he added. We don't want to continue to see F&W and conservation as the backstop for hard times, Weiss said.

When BPA is relieved of the obligation to serve, we need a mechanism to assure the obligation is picked up elsewhere, that resources are being developed, Rettenmund commented.

The idea about determining which costs are in play, is a good one, Clark commented. The thing that has shocked the system is BPA's \$570 million cost overrun – there is no effort to tie the agency's budget to the rate case, he stated. We'll be hard pressed to keep 20 percent of the load in Slice; it's likely we'll have less Slice in the new contracts than we have now, Clark said. Slice is not a popular concept, except among those who don't have it, he added.

We heard that the joint customers are ready to step up and pay the costs, once things go through the proper forums for determining them, right? Rettenmund asked. That's right, several customers nodded.

I think we should put this to a smaller group and scope out the options, Litchfield suggested. But everyone is interested in this topic, Brattebo responded. Rettenmund said he was surprised the customers had not gone further with a proposal on costs. We thought we had a commitment to work collaboratively with BPA on this, Williams responded. You do, Rettenmund said. It's important to do this collaboratively, Marcus Wood (PacifiCorp) agreed.

Would it be a good idea to come to the next meeting and work on it, and then move into a small group if needed? Rettenmund asked. If some people brainstormed and put an idea on the table, we'd get further, Litchfield replied.

Rettenmund asked interested participants to work with Latham to set up a subgroup meeting. After some discussion, a meeting was set for Wednesday, November 20 at 3 p.m. at PPC headquarters. We don't want to accidentally exclude anyone from

participation, Rettenmund emphasized. Wood suggested BPA post a notice on the web site saying that subgroup meetings may be scheduled at the workshops and then announced on the web site. That way, people will know ahead of time they need to stay alert or run the chance of missing out, he indicated.

**Load/Resource Balance.** Referring to a table entitled *BPA Estimated Resources and Public Loads*, Rettenmund said BPA foresees the possibility of a resource deficit in 2007. Jon Hirsch (BPA) answered questions about the table and explained how the numbers were reached. He said the numbers reflect the Subscription contracts, using net requirements for full and partial requirements customers, and contracted amounts for Slice and Slice block. Participants pointed out possible inconsistencies with other information and different assumptions that should be used and suggested BPA redo the table.

We see the possibility for a deficit, and there are implications in that about how we go forward with our approach, Rettenmund said. We've tried to get these load numbers correct and to talk about an allocation agreement, Carr pointed out. The JCP did not allow the step-up in load, Litchfield said.

But we have to plan for both possibilities, Tim Johnson pointed out. Yes, our proposal will have to plan for both cases, Rettenmund agreed. We don't agree with the JCP that there are no plausible scenarios in which there could be a deficit, he added.

That's why we want to look at a tally of the total of the contracts once they are signed, Litchfield explained. We can't wait for that before we figure out if we're going to need to plan for a deficit, Rettenmund said. Does your approach work if there is not a surplus? he asked. If there is a deficit, then the joint customers have to talk about it, Carr responded. When does that deficit raise its hand? Rettenmund asked.

BPA's proposal will have something on this – we'll deal with whether there is a deficit, Tim Johnson said. We have to have a proposal for both instances – deficit and surplus, Rettenmund concurred.

We haven't pinned down if we will use the 2002 or 2007 net requirements for an allocation, Carr said. It's the same old issue – allocate or augment, Litchfield observed.

Rettenmund said staff would clean up the Load/Resource table and that anyone with input on the numbers should contact Hirsch.

### **Next Workshop**

The next workshop will be Tuesday, November 26. The agenda will include the proposal from the Meaningful and Enforceable subgroup; a presentation from BPA's environmental staff about the Business Plan EIS; and a customer proposal on sequencing.

Adjourn: 1:15 p.m.