

REGIONAL DIALOGUE PUBLIC WORKSHOP NOTES
Tuesday, November 26, 2002
BPA Rates Hearing Room, Portland, Oregon

Approximately 22 people attended, with seven joining by phone.

Fred Rettenmund (BPA) said he is working on the regional dialogue principles and objectives and will have a new draft December 4.

1. Update on Loads and Resources Table

Jon Hirsch (BPA) reported that he had made suggested changes in the loads/resources table. The changes made little difference in the near-term outcome, but increased BPA's estimated deficit in later years by about 80 average megawatts (aMW), he said. Hirsch said he talked to other BPA staffers about additional conservation and renewable resources, but determined there was too much uncertainty about a future 25 MW wind resource to include it in the table. We also dropped 2012 from the table because things are so uncertain with the Slice block, he added.

Linc Wolverton (ICNU) commented that 2012 through 2015 are crucial years for determining if the settlement will work. BPA's requirements obligation in that period is important to assessing the future, he added. It's important, but it's hard information to come up with, Kevin Clark (SCL) responded. After some discussion, Rettenmund said BPA would take a look at extending the table out to future years. But we'll need to understand, it won't necessarily be accurate, he cautioned.

Marcus Wood (PacifiCorp) asked about the export figures, asking if the power is recallable and whether it represents the Canadian Entitlement. Rettenmund responded that the majority is the Entitlement and the remaining exports are recallable.

Are numbers in the out-years constrained by contract provisions, i.e., where no load growth is allowed? Terry Mundorf (WPAG) asked. Hirsch said yes.

The table reflects the sum of individual utility forecasts from about May 2000, Hirsch said, adding that the forecasts have been updated over time.

2. Discussion of EIS Coverage

Hub Adams (BPA) and Kathy Pierce (BPA) reported on the NEPA strategy BPA is considering for the regional dialogue. Since there is no proposal from the dialogue at this point, we are still strategizing about our NEPA options, Adams said. We feel comfortable that our approach could be based on the Business Plan EIS, which provides a lot of flexibility and has a long lifespan, he added. We're still thinking about the right way to go and will base our approach on what we hear in the dialogue, Adams stated.

Pierce explained that when it was prepared, the Business Plan EIS looked at a broad range of alternatives, from divvying up the BPA system to a market-driven alternative. She said BPA has used the EIS as NEPA coverage for 30 decisions. The environmental impacts we analyzed are driven by how we operate the federal resources and whether we develop new resources, Pierce said. She added that the analysis also factored in transmission and customer responses. We believe we can use the Business Plan EIS for the regional dialogue outcome in the same way we used it for Subscription, Pierce said.

Wolverton pointed out that “the status quo” has changed in 10 years. “You may need to rethink this” and look carefully at whether you need to do a new EIS, he said. The Record of Decision (ROD) in the Business Plan EIS concluded that the purpose of BPA’s actions is to retain load, but that is not what this settlement proposal is about, Wolverton continued. The Business Plan EIS started in ’93 and much has changed, he stated.

The underlying need for action in the Business Plan EIS was not retaining load, Pierce responded. We have a list of 11 purposes in the EIS, and that is not one of them, she added. The System Operation Review (SOR) was going on when we did the Business Plan EIS, and we said the EIS would not drive hydro operations, Pierce went on. The SOR concluded that NMFS’ Biological Opinion (BiOp) would drive operations, and we said we’d gear the EIS to the BiOp, she said. I’m comfortable we could stay with that, Pierce stated.

I agree there are other alternatives around, but we’re comfortable we have a wide range of alternatives considered in this EIS, she continued. There were four key issues addressed in the Business Plan EIS, she explained: service to the DSIs; rate structure; conservation and renewables; and fish and wildlife (F&W). Those issues were controversial then, and they are controversial today, Pierce added.

The existing environment has changed a lot in 10 years, Wolverton responded. The environment has changed, but the environmental consequences of actions have not changed, Pierce said.

But the alternatives would act differently under current conditions, Steve Weiss (NWECC) pointed out. I think there is quite a different analysis needed, he said. And unlike you indicated with the SOR, business and financial considerations are driving operations of the system today, Weiss continued. Last year, BPA implemented emergency operations because of its financial problems, and right now, you’re cutting back on fully funding the Council’s F&W plan for the same reason, he said. Depending on the market and the power-supply situation, if utilities take on the risk for their own load growth, they could turn to diesel generation and that would have a huge environmental impact – we’ve seen it happen, Weiss stated. Ten years ago, prices were more stable, he said. In today’s environment, “wildly fluctuating” prices could result in new impacts, Weiss added.

We structured the Business Plan EIS to focus on relationships rather than on the market, Pierce responded. The situation under which spill was curtailed was not contemplated in the Business Plan EIS, Weiss pointed out. The environmental impacts of spill are the

same regardless of the driver, Pierce responded. We will soon release our EIS on the F&W implementation plan, which will be added to the SOR, the Business Plan and Canadian Entitlement EISs as “broad programmatic, umbrella documents” that provide coverage for a range of actions, she stated.

You have “broad, old documents,” Weiss said. “We see it as handwaving,” when you say the Business Plan EIS covers all possible instances, he said. But conditions today are quite different than they were, and I don’t think you can go for a decade without a new analysis, Weiss stated.

But we are looking at other EISs, too, Rettenmund pointed out. It’s not just the Business Plan EIS we can use; we have the others that were mentioned, as well, he said.

Adams said BPA would consider the concerns being raised, adding that it would be valuable to get them in writing. He said BPA is looking at ways to update the affected environment information in the EIS and determine if any changes would affect the impacts. We want to make sure the impacts are still valid, Adams indicated.

We consider each proposed action and look closely in the RODs to see if they are covered and if our analysis is still valid, Pierce explained. She said BPA can also update environmental impacts when appropriate; for example, to reflect improved technology with combustion turbines (CTs).

I appreciate the difficulty of “trying to stop time” and do a huge comprehensive EIS, Mundorf said. No one here wants the actions taken regarding an EIS to jeopardize the outcome of the settlement – we are depending on your judgment on this, he said. The element of timing is another consideration, Mundorf continued. We would not want to see the need for an EIS get in the way of a timely resolution, he added.

Rettenmund said there would be opportunity in the future to continue discussing the NEPA issues. Your comments make us think, and we appreciate that, Pierce said. Public involvement is key in NEPA, she acknowledged.

3. Sequencing

Rettenmund said the main focus of the sequencing discussion is to get a better understanding of the flow between developing policy, preparing contracts and setting rates. Mundorf said he agreed the correct sequence of events would be policy, contracts and rates. At the end of the policy process, we’d anticipate contract offers, he said. New contracts would be based on the current ones to ease the effort, Mundorf added. Rates would come after that, but the question is whether people would be willing to sign a long-term contract without any knowledge about the rate, he continued. Probably they would not, so we would propose setting a target rate and giving customers the opportunity to terminate their contract if the target isn’t met, Mundorf said. Establishing the target is not an easy exercise, but a target rate was used in the past to get customers to commit to contracts, he said.

We want an idea of what we're signing on to, Wood stated. The target seems like a workable idea, but we're open to discussion, he added. In the customer proposal, there is substantial detail about the potential rate formula and the costs that should be included and excluded, Wood said. In the proposal, the costs that are included are set out as a contract term, and parties would intend to negotiate them as a contract term, he said.

Costs and cost apportionment would be a contractual matter, Mundorf agreed. Our interest is to give people a good reason for signing a long-term contract, and an unknown rate is a risk factor in that decision, he added. At issue is the duration of the commitment, Mundorf said, and if there is a way to eliminate the concern about rates, we're all for it, he said. We want to give people confidence in what they're doing, he stated.

The Slice contract is based on a methodology that went through a 7(i) process, Hirsch commented. Are you thinking of having a non-Slice rate methodology? he asked.

The implied question is whether there is a need to have a methodology in other contracts, Mundorf responded. When you talk about a rate target, are you referring to a methodology or a number? Hirsch asked. Both, Mundorf answered. A number by itself is not enough, he said.

My thought is that there are existing contracts for 10 more years, and at the end of the day, if people don't want the new paradigm, "they'll soldier on under the current arrangement," Mundorf said. If the new contract is invalid for any reason, then we assume the old contract will remain in place, Wood commented.

Could some customers opt out, but not others? Michael Early (Alcoa) asked. That brings us to the question of "the critical mass," Mundorf replied.

Our recent experience with rates is that they were quite different than anticipated, Paul Murphy (Golden NW) said. We feel strongly that contracts and rates have to be simultaneous, he said. In order for BPA to know its load-serving obligation and to do what's needed to serve that load, they have to be handled more or less together, Murphy said. That way, BPA and the customers know the prices are valid because BPA knows what it has to acquire in the way of resources, he added.

With Subscription, the processes ended up being concurrent, according to Dale Latham (BPA). I thought customers felt they knew the rates, he said. Several customers disagreed. It seems we need to get things lined up more clearly this time, Murphy said.

We have to work on our load/resource obligation iteratively, Rettenmund pointed out. The process needs to be coordinated, Tom Miller (BPA) agreed. In Subscription, we were ending the contracts with no fallback, but this time we have underlying contracts, which offers some possibilities for contingencies, he suggested.

The DSIs have shorter contracts, and our power supply arrangements aren't known more than four or five years out, Murphy commented.

People will have a choice because they have an existing contract, Mundorf said. At some point there has to be a critical mass to see if it is worthwhile to move to the new paradigm, he said.

We would like a new contract offer soon, Early said. At what point would BPA be able to provide us with a rate test? he asked. Or would that be a hole in the contract? If so, when does that blank get filled in? Early inquired.

If we sign contracts in late 2003 or early 2004, we would have the rate case ahead of us, Rettenmund responded. I don't know if we would be ready to offer that rate test, he said.

When does the blank get filled in then? Early asked. BPA has a motivation to get a good number out there too, he added.

My hope is that we will get enough detail today to go back and start laying out a schedule, Latham stated. Let me test the worst case, he continued. If we have contracts in place a year ahead of when they take effect, is that enough time for customers? Latham asked.

If BPA is above the market, people will more likely want to stick with a shorter-term contract, Mundorf said.

Is there a real possibility you'd have two sets of customers, the old and new contracts, with different rates? Howard Schwartz (WA CTED) asked. We'd try not to do that, Rettenmund indicated. If there are two sets of contracts, will there be new rates for both? Schwartz asked. Yes, Rettenmund stated.

My assumption is there will have to be extensive rate workshops to get to the target rate, Don Kari (Puget) said. Yes, people will have to have confidence in the number, Rettenmund agreed.

What is it that makes it so difficult for BPA to come up with a number? Wood asked. Market, market, market, he said. He suggested there are big questions with regard to whether BPA has to buy to cover a deficit; what service there will be for DSIs; and the marketing of non-firm and what happens if the non-firm revenue credit drops. With the uncertainty, how confident can we be about the price? Wood asked.

We're dealing with the situation now that the non-firm credit is small, and it isn't a trivial situation, Rettenmund observed.

Weiss asked for clarification about Mundorf's reference to "the paradigm shift." What is the change? he asked. In the current world, load growth can be placed on BPA, and requirements customers can't put their load growth on a non-federal source, Mundorf

explained. The paradigm shift would be two-fold, he said. First, if a customer does not go with requirements service, its load growth would come off BPA; and second, a requirements customer could put load growth on a non-federal supply source with notice to BPA, Mundorf said. As to Dale's question about whether a year is enough notice, it depends on what you plan to do, he continued. If you're going to build a CT, it's probably not, Mundorf said. But if you are participating in a CT, it is adequate, and for buying from the market, it's plenty of time, he said. With Subscription, the time frames were not optimal, but they were adequate, Mundorf stated.

The more notice the better, Murphy said. The DSIs are different from utilities; they need to do something much sooner than other customers with longer contracts, he said.

So a rate target won't do? Latham asked. It would be helpful, but we want something that is a good target and has a reasonable likelihood of being accurate, Murphy replied.

Rettenmund said BPA would try to provide customers with a first-cut estimate of the unit cost of power soon. Our intent is to get it to you soon, he said.

The rate target has to be out as early as possible, Early stated. It provides a management tool for BPA, he commented. A lot of your costs are controllable and if you have two to three years to get to the target, you're more likely to get there, Early added.

What I've heard is that customers are interested in negotiating contracts first, followed by a period in which they would have a chance to look at the collective take, Latham summed up. After that, the only out would be with the contingencies in the contract, he said. Yes, with the rate target and the rate construct, Rettenmund added.

Another element would be to have the rate case final within a year of the contract taking effect, Marc Hellman (OPUC) said. I don't know if that element would be part of this, but it is reasonable and desirable, Mundorf agreed. We would not conclude the rate case more than a year before the start of the new contracts, but sooner would be better, Rettenmund said.

Hellman asked what "the rate" would entail. Now, you have a rate with the CRACs, but for the next contracts, if you have a context for coming up with the base rate, is that good enough? he asked.

We want to know what we'll pay, Murphy responded. To be clear, you'll sign a contract with a rate methodology and a rate target, Latham stated. But this time we'll have more certainty about our load, Tim Johnson (BPA) added.

I'm interested in what we'll pay in the first bill, Mundorf said. So you're not thinking there would be a load-based CRAC? Hellman said. How about crediting the non-firm revenues? he asked.

In a world where BPA's load-serving obligation is lower, the need for a rate mechanism related to load should be reduced, Mundorf stated. The rate target may be more fuzzy for some customers than others, Kari pointed out.

Latham said he would take information from the discussion and start to lay out a sequencing process.

4. Meaningful and Enforceable

Rettenmund said a subgroup met November 20 and brainstormed topics on meaningful and enforceable. We talked about three issues, he said: process, trigger and remedy. Rettenmund pointed out that Terry Mundorf wrote up ideas from the meeting. We agreed it would be useful to go through the financial choices spreadsheets and BPA's revenues and expense statements to determine which categories are controllable, he added. The purpose of the exercise is to get the expenses into categories of controllable versus non-controllable, as opposed to dealing with the actual numbers, Rettenmund explained.

Latham offered handouts with BPA's financial information. Dave Steele (BPA) walked participants through the material, which included elements from BPA's detailed financial statement, as well as categories of expenses used in the financial choices process. The financial choices categories are a subset of our expenses that Paul Norman saw as controllable, he explained. [Detailed information and the handouts are available on request.]

A number of participants asked questions about the figures and the relationship between the budget documents and the rate case. Steele pointed out the line items in the budget that contain the majority of BPA's "people costs" over which BPA has the most control.

The figures on these sheets represent about \$700 million to \$800 million in expenses, but BPA's total revenue requirement is \$3.3 billion, Rettenmund pointed out. That's the ratio of our controllable to our non-controllable costs, he added. Our controllable costs are about \$600 million, Steele clarified. The non-controllable costs fall into four categories, he said: augmentation purchases, including market purchases and buy downs; other power purchases; debt service, including federal and third party; and transmission purchases.

A recent letter from Steve Wright said \$35 MW is the average cost of the augmentation, Murphy said. That was the average cost of the augmentation purchases, including the buydowns, staff responded.

Wood pointed out that some costs are not controllable in the short term but are controllable in the long term. Yes, some of the costs depend on our relationship with our customers, Rettenmund agreed. One could argue that the \$1.2 billion in purchases is a controllable expense, depending on the BPA/customer relationship, Mundorf commented.

Are all 36 items on the financial choices list controllable in some fashion? Mundorf asked. Yes, at the time it was prepared, that was the thinking, Steele responded. But I'd kick the CSRS (civil service retirement) and the Colville settlement costs off the list if I were preparing it today, he added.

Do the customers see certain categories as controllable and others not? Latham asked. Mundorf said he needed more time to process the information before he could respond, adding that Wood's comment about the short and long term warrants consideration.

Overall the total rate is important, but there is a subset of costs BPA has control over, Clark said. We want to come up with a mechanism that addresses the rate level, as well as measures related to BPA controlling the costs it is able to control, he stated.

There are revenue points, such as the treatment of non-firm revenues, that will have an effect too, Murphy pointed out. If the Slice is a smaller fraction of the total load, that will have an effect on the overall rate level, he added.

BPA could reduce its reliance on secondary revenues and reduce its risk, Lyn Williams (PGE) stated. There is an element of control in that, she indicated. I thought we were focusing on costs here, Rettenmund said. Yes, but at the end of the day, it's what customers have to pay overall, Williams responded.

I don't think we've centered on anything, Mundorf said. I hope we keep the list of possibilities alive – I don't want to say we've concluded that the budget side is the way to go, he added.

The "big picture" is to avoid rate shock, Schwartz said. The question is how to maximize the possibility of keeping costs and revenues level – it's about making sure revenues come in close to forecasts and costs are adequately laid out, he continued. We need to ask what the parameters are for keeping BPA on "the straight and narrow," Schwarz said.

Or to keep "BPA's masters" in line, Murphy added. You also have to be concerned about legislative changes, he said. There is nothing to keep Congress from changing the repayment formula even if there are contracts in place, Johnson indicated.

One of the reasons the parties in the region want to do something now is to keep Congress from doing something to us, Rettenmund said. But you can also set it up so no one is looking to gore you, Murphy responded. I'm convinced you need a test for how your rate compares to the market, he said. The big threat is that the Northeast/Midwest coalition will force BPA to go to market rates, Murphy pointed out.

We favor some controlling of controllable costs, Weiss stated. Everyone is interested in caps on expenses, but we want to have floors on some expenses, too, such as conservation/renewables and fish costs, he said. There is interest in multiyear funding agreements, Weiss indicated.

How can that work in the long term? Wood asked. He suggested it is difficult for BPA to insure it gets what it pays for with spending floors since people can seek remedies in court. Weiss pointed out that customers have the option not to renew contracts. You can't get 20 years of certainty that there won't be court orders, he acknowledged.

So what you're talking about is simply a floor, Wood stated. Because you can't solve everything, doesn't mean you shouldn't solve anything, Weiss responded. You can still make it so BPA would have to go through a real justification process to make changes in costs, such as with its FTEs, he suggested.

Kari said amortization and depreciation are expenses that should be considered and that BPA has some control over amortization. We should flag the areas of amortization that are controllable, he suggested.

Charlie Grist (Council) pointed out that there may be categories of costs that should be benchmarked. The remedies are an important aspect of this discussion, he said, since they could influence how far "to go down the path" of what BPA's costs should be.

Mundorf agreed that before the group spends a lot of time on categorizing expenses, there should be some discussion of techniques for remedies. We first need a cut at the categories, Clark stated. I'd be inclined to make sure we have the techniques listed, think about the pros and cons of them and see what is needed to get at the particular costs, Mundorf said.

Schwartz asked about adding to the compendium of ideas Mundorf compiled. Latham suggested people send him any other ideas, and he would see that they get on the list. We have another meeting December 3 on this topic, Rettenmund announced. Latham asked that the meeting start at 9 a.m. and said details would be posted on the web site.

5. Next Workshop

Rettenmund said BPA would present its thinking on several issues at the December 4 workshop, including IOU exchange costs, service to DSIs, Slice and 2007 to 2011 costs. We'll follow with a discussion and then decide whether to break into subgroups, he said.

Adjourn: 2 p.m.