

**REGIONAL DIALOGUE PUBLIC WORKSHOP NOTES**  
**Wednesday, December 18, 2002**  
**BPA Rates Hearing Room, Portland, Oregon**

Approximately 30 people attended, with one person joining by phone.

**1. Welcome**

Fred Rettenmund (BPA) went over the workshop agenda, noting the handouts on the sign-in table.

**2. Revised Principles**

Rettenmund pointed out that BPA staff made revisions to the draft principles, based on the previous discussions. To the first bullet under Principle I, which states, “Provide low-cost, cost-based power,” we added “that is \_\_\_ below the marginal cost of new resources,” he said. We are looking for the right modifier to fill in the blank in front of “below,” Rettenmund said, adding that it could be “well” or “significantly.” He clarified that the principles are BPA’s and not necessarily those of the customers.

You don’t know what the marginal cost will be; you already say the power will be cost based, which seems adequate, Linc Wolverton (ICNU) said. Marginal cost is the wrong benchmark, Terry Mundorf (WPAG) stated. It is not a good benchmark of whether the system is being managed well – the market may be a better one, he added.

You should keep your costs down, and your rates should be cost based, but that does not have anything to do with marginal costs, Steve Weiss (NVEC) said. I think you should say the system will be operated “efficiently and prudently,” Marc Hellman (Oregon PUC) offered. Otherwise, this could imply that if marginal costs are high, “you can throw dollars around,” he said. I agree with Marc, Mike Morgan (PGE) stated. It is useful to have the idea of efficiency here – efficient operation is all anyone can ask, he said. This statement says that you have a target, but the target is wrong, Michael Early (Alcoa) said. Marginal costs should not be the starting point for you, he added.

Marginal costs might have been an okay comparison in the past, but now, the market is the test, Mundorf said. When people are considering BPA, they look at the market for a comparison, he continued. But the market is “up, down, and sideways,” so we don’t have a good feel for it, and it’s not a good yardstick to include here, Mundorf added.

Geoff Carr (NRU) suggested striking the underlined portion of the principle statement, containing the contentious language. We’ll take that input back, Rettenmund responded.

He pointed out another change: deleting the phrase “as broadly as possible” and adding the words “and risks” in the fifth bullet. By adding “risks,” are you contemplating an arrangement with the residential and small-farm customers of IOUs “that could flip”? Weiss asked. In the original statement, we did not want to imply there was no risk,

Rettenmund responded. Asked what he meant by “flip,” Weiss said he was referring to the possibility the benefits could be positive or negative.

What is left out here is a sense of “equity,” Jim Litchfield (IOUs) said. He suggested adding “Equitably share” to the beginning of the statement. The word “equity” indicates that if an agreement is going to be viable and sustainable, it has to feel equitable, like IOU customers are getting a fair share; Marcus Wood (PacifiCorp) elaborated. It says, “we can live with this,” he added.

What are the public benefits? Hellman asked, moving to Principle II. We have a list of them, including low-cost power, reliability, fish and wildlife activities, renewable resources, open decisionmaking, and so forth, Rettenmund replied.

Morgan questioned the wording of the first bullet, which refers to a base level of spending tied to BPA’s financial health. If you are not healthy, you won’t even get to a base level of spending, he said. This suggests that we would have a base level of spending and move to a higher level of benefits as we get financially healthier, Rettenmund explained.

The base doesn’t make sense – when things get tough, you cut the base, Litchfield commented. The base is important; Rachel Shimshak (Renewable Northwest Project) disagreed. There are fundamentals that you have to fund; leaving this in “would calm fears,” she added.

What do you mean by “cost deferrals” under the second bullet, Carr asked. Does that refer to the IOU benefit, the condenser at the Columbia Generating Station, or what? You’ve cut a lot of costs, so are those all considered cost deferrals? he inquired. Some of the cuts will be short term and others will be longer lived, Rettenmund responded. This is referring specifically to the dollars we have committed to spend that are going to move forward, he added.

This statement creates more anxiety than it resolves, Mundorf observed. It would be helpful to have a list of what these cost deferrals are, rather than leaving the impression “they could be anything,” he stated.

The idea here is that you don’t want to leverage future generations, Litchfield said. No one has a problem with that, but this statement is a problem, he continued. There are refinancings going on that extend obligations well into the future, Litchfield said.

Turning to the purposes, Rettenmund pointed out that BPA deleted the fourth statement in response to comments.

### **3. Schedule of Future Meetings**

Rettenmund said BPA staff is proposing a series of technical workshops on various topics in January, including: conservation; meaningful and enforceable contract provisions;

requirements products; take-or-pay retail access and sequencing; renewables; DSIs and new large single load; and Slice. The first workshop is scheduled January 7 to address conservation. After some discussion, the group agreed on a couple of changes to the proposed schedule, and Rettenmund suggested people e-mail him with other suggestions. A complete schedule will be posted on the Regional Dialogue web site, he said.

BPA is still working toward a January 31 proposal on its post 2006 role, but meeting that deadline is becoming problematic, Rettenmund acknowledged.

#### **4. BPA's Current Views on Post 2006 Issues**

##### Rates

Our thinking with regard to rates is, "we want to tier rates and move to a two-year rate period," Barney Keep (BPA) stated. Rettenmund pointed out that BPA had not come to any conclusions and "is looking at" tiered rates, and Tim Johnson (BPA) said tiering rates fits with the structure of the joint customer proposal.

It would be good in a tiered rate structure to have every kilowatt-hour face the marginal cost, Weiss stated. Even if a utility reduces its load, it should still have some load in the top tier, he recommended, adding that it's important because of the decrement issue with the Conservation and Renewables Discount (C&RD) Program. So you are saying that all customers should face a second tier? Keep asked. Yes, and if they are very successful with conservation, they could get down to Tier 1, Weiss responded.

In the customer proposal, Slice purchasers would face the cost of power in the market to meet load growth; implicit in that product is the marginal cost, Mundorf said. The customer proposal is silent about what would happen with additional resource costs in the Requirements pool, he said. My clients would be very disappointed if they face a marginal-cost rate for embedded-cost resources, and would likely pursue the issue in court, Mundorf indicated. They came into these discussions with the idea they would get power from the Requirements pool at a melded rate, he added.

To allocate the FBS power – and there is only so much – you have to figure out how to divide it up, and that leads to tiered rates, Johnson said. Tiered rates is only one option, Mundorf responded. A "direct assignment" is not the same as a tiered rate – with tiered rates, you shift costs, he added.

Are you thinking there would be a base cost for the FBS, with an additional tiered or inverted block? Litchfield asked. There are a lot of issues to resolve, including the size of Tier 1, Keep responded. We thought we'd have a general discussion of the issues, before we make our proposal, he said, adding that January 31 is still the deadline.

Some FBS customers are Slice customers, Keith Knitter (Grant PUD) said. How do you tier the FBS if there is Slice? he asked. There are many issues, Keep reiterated. It's possible you would only tier the block, but there are a lot of issues to address, he replied.

Our load/resource numbers don't show a deficit in the first two years, Carr said. Are you saying that the tiered rate would occur only when there is a deficit? he asked. Yes, Rettenmund said, that is the case.

The Slice customers "don't fit the definition" in terms of needing to face a marginal price signal, Litchfield said. If you take Weiss' position, everyone should face Tier II, and Slicers are no different, Keep responded. But they always face Tier II, Litchfield responded. If you want everyone to face Tier II, that's a different proposition than just having tiered rates, he indicated.

Charlie Grist (Council staff) asked BPA staff to compare and contrast their preference for tiered rates to what the customer proposal provides. What is the thinking that lands you on tiered rates? he asked. With tiered rates, you can treat everyone on a more equitable basis, Keep responded. One of the attributes of tiered rates is that they allow everyone to see more clearly the consequences of load growth, and customers can compare their alternatives for meeting load, Rettenmund added.

Tiered rates would be different for the new as opposed to the existing contracts, Early commented. Would you propose them for both? he asked. Yes, Keep answered.

The Slicers are "on the hook already" for marginal costs, Mundorf pointed out. Slicers would not be pleased if you increase the cost of Slice directly to give a price signal to other customers, he said. And the current Slice customers would not be inclined to turn in their current contract for a higher-cost one, Mundorf added. In the Requirements pool, it's a fair question to explore alternatives, he continued. But if the point of the new contracts is to raise the cost of access to the embedded system prior to your being deficit, "it's dead on arrival," Mundorf said. People will not sign that contract, and you need to understand that, he stated.

"Ditto," Tom O'Connor (OMEU) stated. In earlier tiered proposals on the embedded system, we've opposed that approach, and we will this time, he said. When you need to acquire resources, then it is an alternative, O'Connor added.

If the system is not deficit, the customer proposal does not have tiers, John Saven (NRU) said. When we have a discussion about tiered rates, I'd like to do it with the Requirements customers present, he said. We think there is "sufficient headroom" in the system that we won't need tiers in 2006 – "we'll cross that bridge when we come to it," Saven said.

Does the two-year rate period mean you would not have CRACs? Early asked. In my opinion, we should get off CRACs, Keep said.

Having the CRACs doesn't impose the discipline that is needed to control costs, Wolverton said. I have reservations about them, he added.

A two-year rate period is more realistic given the nature of the business today, and with a shorter period, we should be able to do a better job of forecasting risk, Mundorf said. If you are serious about the two-year rate period, you should also look at how you now conduct the rate case – an 18-month or two-year process to establish a two-year rate means something “is out of whack,” he stated.

I’d ask you to consider a combination of the two and five-year process, Rettenmund said. We could fix some things for five years, but allow for a limited process on other things, such as the amount of firm load we are meeting, he suggested. I don’t want to give up on the notion there are things we can predict for five years, Rettenmund added.

Rate design is a big piece of the rate case, Wood said. You could have the revenue requirement up for consideration every two years, but not alter rate design, he suggested. Mundorf agreed. Rate design is where costs can shift among customers, and it takes up most of the time, he said.

One advantage of going with a two-year rate period is that you could decrease planned net revenue for risk (PNRR), but if some things are set for five years, you could also undo much of that advantage, Kevin O’Meara (PPC) commented.

### Renewables

Debra Malin (BPA) laid out principles for renewable resources. First, BPA wants to remain a leader in the development of renewable resources in the Northwest, she said. We intend to accomplish this with two possible mechanisms, Malin stated: meeting a certain percentage of our load growth with renewables, or acquiring renewables based on a regional plan, “which may be the Council’s or some other.” Second, BPA’s renewable expenses will be tied to the agency’s financial health, she continued. And third, those who are receiving FBS benefits should share in the obligation for renewables, Malin stated. We don’t want to be the only ones acquiring renewables and having our rates go up – we want a level playing field, she said.

Have you thought about any figures for the percentage on acquisitions to meet load growth? Early asked. We would like your ideas on that, Malin responded. What about the relationship of your renewables principles to Slice? Early asked. The relationship goes back to having shared responsibility for renewables, Malin replied. Maybe it could be done with a C&RD arrangement or we would augment the FBS with renewables, and everyone would get a share, she said.

If a utility develops its own renewables, would it get relief from the BPA program? Knitter asked. Yes, Malin responded.

How would this relate to the existing C&RD? Don Kari (Puget) asked. We need to retain that program, Malin said. Those are sunk costs for investments BPA and others have made, she added. The C&RD would be one mechanism for utilities to demonstrate they are doing their part, Shimshak clarified.

What is the status of the \$15 million allocated to conservation and renewables in the rate case? O'Meara asked. The Four-Mile Hill project brings us up to the \$15 million spending level, Malin said. She explained that \$15 million was allocated for acquiring resources and \$6 million was allocated for credits to customers. And if customers don't expend the \$6 million by the end of the rate period, you will? O'Connor asked. Malin said that was the case.

What would the off-ramp be for a customer that develops its own resources? Could a single resource count over a period of years? Knitter asked. We have to work out the details, but "if you are a good guy, we don't want you to get punished," Malin responded. If we were currently developing renewables, would you count those? Knitter asked. We want to count our sunk costs, so why shouldn't you be able to, Malin replied.

Are you thinking in terms of MWs or dollars spent? Weiss asked. We are leaning toward MWs, with dollars as a fallback, Malin replied.

In your first principle, what do you mean in your reference to a regional plan? Grist asked. "Timing is everything," Malin replied. "Let's see what the Council Plan comes up with," she said.

In determining the obligation BPA will attempt to impose on a utility, will it be on the total load or the portion of the load served by BPA? Mundorf asked. Rettenmund said load growth and non-load growth customers would have an obligation to meet some of their growth with renewables. If you have a customer who is served 50 percent by BPA and 50 percent by other sources, would the requirement be on the total load growth or the percentage served by BPA, Mundorf asked. It would be on the total load, Malin responded. That would be "a major disincentive" to signing a contract, Mundorf replied, adding that BPA's ability "to hook" conservation and renewables into the contract is through the load it is obligated to serve, not other load.

Malin suggested renewables is a small part of the budget. That may be the case now, but when you are establishing the principle up front, it's important to consider what could happen in the future, Mundorf replied.

There were questions about how publics would be treated versus IOUs, and Malin said IOU customers would have the same requirement for developing renewables.

The requirement for investing in renewables goes back to the Comprehensive Review, and we'd like to set a level region-wide playing field, Weiss said. The problem to be solved here is the low level of investment in renewable resources, he stated. We support BPA's approach, Weiss said, indicating that public interest groups would rather work out a solution than use their power to "stall this thing."

## Conservation

Mike Weedall (BPA) reported that he had talked to people about a meeting between several interests to try to find convergence on outstanding issues related to conservation. Our proposal is to limit the number of participants and have three or four representatives each from BPA, customers, public interest groups, and Council staff for the working sessions, he said. We would get together January 7, then report back to our constituencies, and come back together on January 14, Weedall explained. What comes out of the group would be the basis for our written proposal on conservation, he said.

The customers have been talking about conservation quite a bit, and we have made progress, Carr said. What issues do you see that are driving people apart? he asked. Weedall named several issues, including the basis for talking about the customer obligation, conservation targets, steady-state funding, and delivering energy savings. The C&RD needs significant work; I don't think it's the most effective way to deliver savings, he said, adding that there are instances in which people are taking the funds, but not doing "true conservation." He indicated that the C&RD is about twice as expensive as conservation acquired through the ConAug program.

BPA is providing "a tremendous engine for conservation" with its 40 percent rate increase, O'Meara said. There is a lot of price-induced conservation in the region, he added. One of the things that is exacerbating BPA's financial situation is a lack of load, so saying that BPA is inadequately funding conservation is not quite right, O'Meara stated. You need to look at both programmatic and price-induced conservation, he said.

We've said that we will stay with the 220 MW conservation target over the rate period, Weedall responded. But because staff has been very efficient in achieving this, we have been able to cut back the program and still deliver the conservation, he indicated.

With regard to the C&RD, Eugene Rosolie (PNGC) cautioned against "throwing the baby out with the bath water." There have to be incentives for utilities to invest in conservation, he said. There are concerns about decrements under the C&RD and that utilities could find themselves doing too much, Rosolie said. People are concerned that if loads are going down, then a decrement could occur, he added.

The C&RD wasn't established as an acquisition program, and the joint customer proposal says we need something more robust than the C&RD for acquisition, Johnson said.

Discussions between the customers and the public interest groups have been fruitful, Weiss said. We have agreed on some things, but there are also large issues that separate us, he continued. The two big issues, Weiss said, are: which loads will have the conservation requirement, and the BPA role versus the customer role. We agree that the Council will set the targets, and we are not fighting over the steady funding issue, he said. But there are big issues that separate us, Weiss acknowledged. We've talked about them a lot, and people have taken positions, he added. Weiss suggested it might work best for BPA to make a decision and negotiate the details with customers and interest groups.

Tom Eckman (Council staff) said there is an issue over how much funding goes to utility acquisitions and how much to a central BPA program for such things as R&D. This is sounding like a debate about a regionally funded BPA ConAug program, O'Connor commented.

We have agreement in many areas, Carr said. We are looking at improving the C&RD, and "I'm shocked you want to throw it out," he said. I think it can be fixed, Weiss said. So I hear you want a modified C&RD, Rettenmund said. You might have both C&RD and ConAug, Johnson commented.

ConAug might make sense if you don't go along with the customer proposal, O'Connor said. You need to fit the conservation piece into the overall construct, and ConAug would not necessarily fit well with the customer proposal, he indicated.

Several other issues were raised in the discussion, including how to link conservation funding with tiered rates and solving the issue of decrements in a way that does not penalize utilities for doing aggressive conservation.

O'Connor expressed reservations about Weedall's proposal for the makeup of the conservation working group. Be prepared to have more people in the room, he said. We are in the public phase of our Regional Dialogue, and we haven't had any exclusionary sessions, Rettenmund said. We don't want anyone to feel they were kept out, he said.

### Accounting for Risk

BPA has historically taken on risk for its customers, and that risk has risen dramatically in recent years due to the market, Carl Buskuhl (BPA) stated. We are suggesting risk be enumerated, wherever possible, and disaggregated from costs where it originates – we want to bring risk to the surface and make it transparent, so you can see where the risk is coming from, he explained. There are two big questions associated with risk, Buskuhl said: how do you cost it? And do you pass on the full costs to customers? We are thinking that BPA and the region could agree on a series of tests regarding risk, such as a test for the creditworthiness of the FCRPS if customers take a share through Slice and a test for how reliability is affected with BPA's future role, he said.

In response to questions about the creditworthiness test, Buskuhl said if a fraction of the FCRPS is allocated to a customer, BPA transfers that fraction of risk to the customer. If the customer's credit rating is not as good as BPA's, the question is whether that puts the overall credit rating of the FCRPS at risk, he continued. We believe the composite creditworth of the system should not be in any way less under Slice, he said.

There is more of a question for the credit rating of the Slice utility than for BPA, O'Meara said. If a Slice customer changes and incurs more market risk, that is important to BPA customers, Buskuhl responded.

Early questioned whether risk is shifted due to a Slice contract. Buskuhl recommended people look at the Standard and Poors web site for references to Slice. You will see Slice discussed in the reviews of utilities that purchased it, he said. Our question is, if a utility's credit rating is under review, could that flow back to BPA, Buskuhl explained. I'm trying to elevate the discussion so people inclined to buy Slice can see what might happen to their credit, he added.

The implication here is that you might charge a risk premium, Early said. Yes, a customer might need to arrange for more credit, Buskuhl answered. The rating agencies cited a lack of secondary revenues that customers thought they would gain by selling Slice surplus, he added.

It could be helpful to you to transfer some of your risk, David Hoff (Puget) pointed out. There are standards for managing risk, and if we transfer the risk via Slice and the Slicer does not manage it properly, we could be asked to do something as the result of the mismanagement, Buskuhl said.

We wrote a default for the Slicers into the customer proposal, Carr pointed out. What about that clause doesn't work for you? he asked. We need to examine further a range of issues, Buskuhl responded. If you portray this as a Requirements versus Slice risk, "you've just opened a can of worms between customers," Carr stated

Buskuhl said the topic of risk will come up in several of the technical meetings, including cost-control, Slice, and the DSIs. BPA staff also said they are considering whether to have S&P do an independent analysis of the agency's risk. We will let the issue evolve relative to individual topics, then we will take it up in a general session if need be, Rettenmund said. The point is that all pieces of the puzzle have risk components, and we need to grapple with them, he added.

I'm a little nervous about everyone having their own reliability and adequacy standards, Weiss said. How do we assure utilities have appropriate standards? he asked. If they don't, it could become "a fish problem," Weiss added.

I'd view that as a general resource planning and resource adequacy test – "it's on the screen," Rettenmund added, He reiterated that such issues would be discussed in the technical sessions.

The meeting adjourned at 2:15 p.m.