

# Regional Dialogue Public Meeting: Potential Changes to BPA's Power Supply Role After 2006

September 19, 2002

Ruby's Convention Center, Missoula, Montana

## 1. Greetings and Introductions

The second regional dialogue public meeting on potential changes to the Bonneville Power Administration's power supply role after 2006 was held September 19, 2002 at Ruby's Convention Center in Missoula, Montana. Please note that this is a summary, not a verbatim transcript, of the discussion that occurred at this meeting. Many of the written materials referenced are available via the [www.nwcouncil.org/bpa](http://www.nwcouncil.org/bpa) website.

Montana Council member John Hines welcomed everyone to today's meeting. Hines noted that the purpose of these meetings is to learn about various ideas and proposals concerning potential changes to how the Bonneville Power Administration markets its electricity after 2006. This meeting, which is jointly sponsored by the Northwest Power Planning Council and BPA, is one of six public meetings we are conducting throughout the Pacific Northwest to solicit comment from interested members of the public on this important issue, Hines said.

Before beginning the formal testimony portion of this meeting, Hines continued, we want to provide some background information on what this meeting is for, what we think the relevant issues are, and the ground rules for this evening's discussions. He noted that these meetings have been set up to focus on the proposals that were submitted to BPA and the Council in response to a letter of solicitation that was distributed broadly throughout the region on June 19.

In that joint letter, said Hines, we requested that written proposals and comments be submitted by Thursday, September 12. That said, however, all who have come prepared to make statements or comments on this topic are invited and encouraged to speak, Hines said.

Electricity is a very important part of the economy in the Pacific Northwest, Hines continued we spend around \$8 billion a year in this region for electricity, and about 45% of that flows through the Federal power system. Depending on the outcome of these discussions, he said, there could be major changes in the power business in the Northwest, the role of BPA, access to Federal power and responsibility for Federal system costs and obligations. Decisions we face could have significant long-term consequences and we owe it to ourselves to take a

careful look at our options. That is why we are conducting these meetings and that is why it is important to get all views out on the table, said Hines.

Hines introduced Bonneville's Allen Burns, who noted that, last winter, a group of BPA customers, the Direct Service Industries, approached BPA with a request to determine the extent of their access to cost-based federal power after 2006 because they needed to make decisions soon regarding investment in their plants in the region. At the same time, another group of customers was discussing a lawsuit regarding the contracts that provide power and financial benefits to the regions investor-owned utilities, Burns said. BPA encouraged these groups to work together and come forward with a proposal for BPA and the region to consider. These groups have prepared a proposal for BPA and the region to consider, said Burns; however, there are other perspectives that should be considered prior to any decisions.

Certainty about BPA's power supply role after 2006 is also critical to the much-needed development of the region's infrastructure, Burns continued. We found out last year how difficult things can be in a region dependent upon hydropower when we were faced with the second-worst water year on record and the energy crisis in California.

Finally, Burns said, if BPA is to continue augmenting its existing generation in order to meet loads that exceed the size of the federal system, then it needs to begin making plans now in order to keep the cost of augmentation as low as possible. Burns then yielded the microphone to his colleague Fred Rettenmund, who offered an additional comment.

Unlike the end of 2001, when all of BPA's regional power sales contracts expired, there are existing contracts that would govern BPA's power supply role after 2006, Rettenmund explained. These are the Subscription contracts signed in the fall of 2000. Most of these contracts, except for the DSI contracts, do not terminate until 2011. To understand more fully what these contracts mean to the region and BPA's role, said Rettenmund, please take a look at BPA's Base Case, which is available at the back of the room. This Base Case describes the contracts and products that were signed in the fall of 2000 during Subscription. These are the contractual commitments that will guide BPA after 2006 if there are no changes between now and then as a result of these current discussions, he explained.

Hines went over the ground rules for tonight's meeting, then introduced the first proposal presenters of the evening.

## **2. Proposal Presentations**

Rick Brown of Ravalli Co. Electric Co-Op led off this presentation, noting that the energy crisis has caused the region to come together in an unprecedented show of unity in an effort to preserve the benefits of the Federal Columbia River Power System (FCRPS). Brown noted that, in his 22 years in this industry, he has never seen anything like the consensus that has come together in developing the joint customer proposal. We believe this proposal meets the essential goals of Bonneville: to secure and equitably allocate the benefits of the FCRPS for the region through long-term contracts, with minimal legal risk and no legislative changes, to expose all Bonneville customers to the same risks, costs and benefits of the federal system, increases Bonneville's

certainty in making its Treasury payments and meeting its fish and wildlife recovery obligations, and is supported by every utility in the region, save one.

Bill Drummond of the Western Montana Electric Generating and Transmission Cooperative began the presentation proper with an overview of the “Customer Goals and Objectives” portion of the joint customer proposal. Working from a series of overheads, Drummond touched on the following major points:

### **Customer Goals and Objectives**

- Create a common interest in the federal system for both public and private utilities
- The federal system is finite – equitably allocate available power benefits through long-term contracts that will secure the federal system for the region
- Expose all BPA customers to the same risks, costs and benefits of the federal system
- Establish clear obligations for who serves growing loads
- Reduce BPA’s need to acquire new resources
- Reduce BPA’s role as either a buyer or seller in the wholesale competitive market
- Assign responsibility for procuring power for future load growth to the serving utilities either directly or bi-laterally with BPA
- Allow serving utilities to decide how best to meet their consumers’ loads not met by the federal system
- Allow serving utilities to assume the responsibility for marketing their share of any federal surplus or purchasing power from the market when needed
- Stabilize conservation and renewable investments
- Ensure fish and wildlife obligations are met
- Settle outstanding litigation and avoid future litigation!
- Accomplish all these goals without new legislation

Loren Baker of Power Resource Managers then briefed those in attendance on the “Slice Power Sales Contracts” and “Requirements Customers” portions of the joint customer proposal:

### **Slice Power Sales Contracts**

- Slice customers receive a percentage allocation of the output of the federal system
- The Slice percentage is based on 2007 net requirements and critical water federal base system (FBS)
- Slice customers accept their percentage of the actual output of the FBS and,
- Slice customers agree to pay the same percentage of actual costs of the FBS
- Slice customers accept the uncertainty of FBS actual output – low and high water
- Slice customers agree to not place additional loads on BPA for the 20-year term of the contract – BPA has no obligation to serve
- Slice customers accept the obligation to market excess power under good water conditions and purchase power under bad water.

## **Requirements Customer Contracts**

- BPA continues to provide power needed to meet requirements loads in excess of the customers' resources, if any
- Requirements customers will retain similar contractual rights, responsibilities and obligations as they have now
- BPA will establish its rates for requirements service.
- Requirements rates will recover their share of the FBS costs plus any BPA costs to acquire new resources to meet the requirements loads
- Requirements purchasers can develop non-federal resources for use in serving load growth or for sale into the market
- Requirements customers will be able to develop their own new resources with appropriate notice to BPA

Lynn Williams of Portland General Electric described the “Residential and Small Farm Customers of Investor-Owned Utilities” portion of the presentation, noting that this is essentially a new wrinkle on the old Residential Exchange” program. There is a much more detailed description of this portion of the proposal in the proposal itself, she said.

- Residential and small-farm customers that are served by investor-owned utilities will receive financial benefits from the federal system similar to the value of a Slice contract
- This will help align the interests of the region's consumers to preserve the FBS for the region's benefit.
- There are no specific limits to the benefits during the first five years.
- The settlement amount is based on the costs of acquiring new combined-cycle combustion turbines to serve the residential and small farm customers
- These CCCT costs are compared to the cost of federal power to Slice customers, adjusted for the value of actual surplus power that is sold
- Actual benefits will vary over time as BPA's costs and natural gas prices change
- During the first five years of this settlement, some power will be provided to PGE instead of the full financial benefits
- The power will be delivered to PGE in the shape of the residential loads with a peak delivery of 280 MW
- This is expected to result in an average energy delivery of about 140 aMW and it will be sold at the same power rates as those charged requirements customers.

Baker then went through the “BPA Cost Controls” and “DSI Service Proposal” portions of the presentation, while Williams went through its “Conservation and Renewables” provisions; she noted that the latter portion of the proposal is still under negotiation and development:

## **BPA Cost Controls**

- Customers making a long-term commitment to pay BPA costs need to participate in BPA's budget planning process

- Long-term commitment by the customers merits meaningful and enforceable customer participation in the process for setting BPA's expenditures

### **DSI Service Proposal**

- Preference customers loads have grown to match the capability of the FBS
- The customers have proposed 600 aMW of BPA service to existing DSI smelters in the region with an additional 50 aMW for BPA service to non-smelter DSI loads
- BPA will make the allocations with active smelters being provided a base allocation of 100 aMW per plant (or more under certain conditions)
- DSIs accepting BPA power and willing to provide new generation in the region may qualify for BPA financial support for such generation, if needed
- For those DSIs that need financial support to develop new generation in the region, the customers will recommend that BPA provide credit support
- The details of particular credit support arrangements are important to all parties, but are too detailed for this presentation.
- During future power crises, if BPA curtails DSI loads, they should ensure that the workers are compensated for the curtailment
- Funds from BPA to compensate workers should be handled through an escrow account
- Any curtailment should be reviewed no less frequently than every six months to determine if it is possible to resume production of aluminum.

### **Conservation and Renewables**

- The goal is to acquire cost-effective conservation and renewables
- NW Power Planning Council will continue to develop regional power plans and develop conservation and renewables targets.
- The Council will also estimate the portion of the regional target that is applicable to BPA
- The obligation to serve load growth is transferred from BPA to Slice customers
- The conservation and renewables discount (C&RD) program will be enhanced to provide incentives for utilities to acquire cost-effective conservation and renewables
- Approved measures would be identified by an Independent Regional Technical Forum (RTF)
- BPA would increase the C&R discount to ensure that conservation investments have a stable funding source available
- Any utility that is subject to a system benefits charge or other local conservation and renewable mandates will be able to count the funds expended against the BPA credits
- Utilities that fail to secure sufficient RTF-approved measures will forfeit the credit and pay a higher rate for power to BPA
- All utilities will file annual progress reports to demonstrate their progress toward acquiring the desired conservation and renewables
- Any credits not provided to utilities will be used by BPA to acquire cost-effective conservation and renewable resources.

Drummond then moved on to the “Fish and Wildlife Obligations” portion of the joint customer proposal, as well as its “System Operations” provisions:

### **Fish and Wildlife Obligations**

- Fish and wildlife obligations continue and are not changed by this proposal
- BPA, the Corps of Engineers and the Bureau of Reclamation continue to meet all Treaty/Trust responsibilities
- NMFS and Council requirements will continue to be determined as they are now
- BPA’s customers will continue to pay for BPA’s fish and wildlife obligations.

### **System Operations**

- All operational decisions continue to be made by the Corps, Bureau and BPA
- All non-power “hard” constraints continue to limit power production
- BPA sets the operating range for Slice customers subject to the constraints on the system
- Operational constraints in the BiOps are HARD constraints
- BPA continues to have full control of the entire system in the event of power system emergencies
- Emergency operations include increasing system generation to assist California or other neighbors
- Ancillary services needed for transmission reliability will continue to be provided by BPA until a market for these services is formed.

### ***Q & A on the Joint Customer Proposal.***

Bob Anderson of the Montana PSC asked the presenters to explain the joint customer proposal’s financial benefits to residential and small farm customers. The amount in the formula is a compromise, 3,300 aMW, Williams replied; the actual load of the customers of investor-owned utilities is 4,400 aMW. We’re proposing a combined-cycle combustion turbine to service the additional load, she said.

Hines asked whether the customer proposal would allocate that 3,300 aMW among the states. Ultimately, that decision is Bonneville’s to make, Williams replied; ordinarily, in the subscription process, the state commissions would get together and make a recommendation to Bonneville, and that is likely what will happen in this case as well.

I wanted to follow up on the idea, put forward in this proposal, that long-term commitment on the part of the customers would merit “meaningful and enforceable” customer participation in the process for setting BPA’s expenditures, said Rettenmund. We don’t have a finished product there, Drummond replied; we need more dialogue on that point. You are correct, however, in saying that it is our belief that a 20-year commitment to Bonneville would merit some input into how BPA sets its expenditures, Drummond said; while some costs, such as fish and wildlife costs, are going to be mandated through various federal processes, there are a

significant amount of annual costs that are under BPA's control, and we want to have a meaningful and enforceable say in that process. That is the main element, to me, that needs to be fleshed out in the joint proposal, added Brown.

In response to a question from Gerald Mueller, Brown admitted that the utilities are certainly just as capable as Bonneville of making poor decisions about resource acquisitions. However, we like to think we've learned a lot over the past few years, Brown said; also, the portfolio of available resources has changed dramatically in recent years.

Council member Ed Bartlett asked whether there are any utilities in the region presently receiving benefits from the federal system that are not in accord with this proposal. There was one utility that opposed the proposal at a recent meeting of the Public Power Council's executive committee, Brown replied; negotiations with that utility are ongoing. To my mind, the fact that only one utility out of more than 130 in the region has so far declined to endorse this proposal is pretty amazing, Brown said.

Your proposal sounds good, said Bartlett, but who is not agreeing with the proposal, and why? What will the governors think of the proposal, why will they like it and why won't they like it? That's probably not something you can answer tonight, he said, but it is of obvious importance to the Council. Also, he asked, how is Bonneville reacting to the proposal? We commented on an earlier version of the proposal, Burns replied; we identified a number of issues regarding its consistency with our legal responsibilities and other mandates. A quick look at the most recent draft of the proposal reveals that many of our concerns have now been addressed, Burns said.

Again, who doesn't like it in the region, and why? Bartlett asked. We were pleasantly surprised by the comments we received at the Pasco meeting on Monday, Drummond replied; Steve Weiss of the Public Power Council was very supportive, and there was no out-and-out opposition expressed. The most negative remark we heard stemmed from a misunderstanding of the proposal, added Williams; it had to do with the idea that the proposal would give Slice customers greater control over river operations. That, again, is a misunderstanding, Williams said.

Hines asked whether BiOp operations would truly remain a hard constraint under the joint customer proposal. Under the contract, said Drummond, Bonneville would send us information several times a day about how the system is being operated; that's what we would have to work with, from a power marketing perspective. There is no mechanism whereby we can offer input to day-to-day system operations, said Burns; the proposal would not change river operations.

Hines thanked Bonneville's customers for the extensive effort they have lavished on this proposal, noting that, in his view, everyone in the region supports its underlying principal of preserving the benefits of the FCRPS for the region.

### *Presentation of the Public Interest Proposal*

The next presenter was Patrick Judge of the Northwest Energy Coalition. He described the NWEC structure, then said he had been asked to present tonight on behalf of NWEC and all of the other supporters and developers of the public interest proposal.

He described the purpose and membership of the Coalition, then said the organization has been working closely with Bonneville's customers to develop what they hope are workable and useful ideas for inclusion in the joint customer proposal. The process is going very well, said Judge, and we're hoping for a very positive outcome to the negotiations, so that we can fully support the joint customer proposal.

There are some differences between our proposal and the joint utility proposal, he said; for example, we believe Bonneville must live up to its stewardship responsibilities under the Northwest Power Act to make energy efficiency and renewables its highest priority in acquiring new resources. If BPA is going to delegate the responsibility for meeting load to its customers, he said, those customers must also abide by the commitment to make cost-effective conservation and renewables the highest priority. Like the utilities, he said, we believe there needs to be a steady stream of funding for the acquisition of conservation and renewable resources.

Judge touched on some of the areas where the Coalition agrees with the joint utility proposal – that Bonneville retains ultimate responsibility to serve as a backstop in case the utilities do not meet their conservation and renewables targets; that there are enforceable performance and accountability standards, that a beefed-up Regional Technical Forum should be the body responsible for approving and monitoring new conservation and renewable resources. We also agree that there should be a strong least-cost component to the conservation and renewables portion of the proposal, said Judge.

However, we believe that the Power Planning Council should determine how much conservation is cost-effective in the region, Judge said; the Coalition believes that target should be on the order of 175 aMW per year. We also recommend that responsibility for meeting this conservation goal should be allocated to each of the utilities and to Bonneville. We differ with the utility proposal in that we feel that regional targets should be shared by each utility in the region, with mechanisms to make sure that region-wide target is met, Judge said – a megawatt target with a dollar cap. If the utility meets its goals while staying under the dollar cap, he said, they would be able to pocket that money. If they choose to pursue more expensive resources, he said, that would be allowed as well. Again, BPA would be the backstop for this effort, auditing the utilities' efforts and assessing financial penalties if the targets are not met.

With respect to the renewables target, we see that as something that should be stable and standardized, said Judge; we think the Northwest should be able to meet all load growth through a combination of conservation and renewables. The Council has projected load growth at 350 aMW/year, Judge said; our belief is that it should be possible to meet that growth through cost-effective conservation and renewables, rather than new generating resources, in particular, rather than new combustion turbines.



We look forward to working with the utilities to develop these targets and the mechanisms to reach them, Judge said; we're a bit apart on some of the details, but we're confident that we can close those gaps. Judge noted that the full Northwest Energy Alliance proposal is available via the NWPPC website. He added that the Alliance has been working with the Steelworkers' Union to develop a workable DSI proposal; he encouraged Bonneville and the Council to do the same. There is a real opportunity, through a well-crafted DSI proposal, to benefit both the regional economy and fish and wildlife in the region, said Judge.

Moving on to the fish and wildlife portion of NWEA's proposal, Judge said the region has largely failed to meet its moral and legal obligations to restore healthy, vibrant salmon and steelhead populations in the Pacific Northwest. These populations are a shadow of their former numbers, and these species continue to spiral toward extinction. Any changes, such as those contemplated under the joint utility proposal, need to be an improvement on the current status quo, Judge said.

We want to say emphatically that the joint customer proposal should not give customers additional control over river operations, given the fact that these 100+ utilities have financial responsibilities that could very easily conflict with the needs of fish – those authorities must continue to rest with the federal action agencies, said Judge. Also, the only emergencies that should take precedence over fish operations are those involving physical danger to humans, property or facilities – not power emergencies, Judge said.

Fish need to be taken care of first, after which available power production would be allocated among the various slices, Judge said. Salmon need an equal and meaningful voice in the day-to-day decision-making on the system; for that reason, we propose that the Columbia Basin tribes be granted the authority to speak on behalf of the salmon, with equal voting rights to those of the federal family in day-to-day river operations, he said.

### ***Q & A on the Public Interest Proposal***

If the customers' Slice proposal fails for whatever reason, could your Slice proposal have a life of its own? one participant asked. Yes, Judge replied. With respect to the conservation portion of your proposal, said Hines, each customer would be expected to acquire conservation and renewables equivalent to their load growth? Each utility would be allocated a slice of the obligation to meet conservation and renewables targets, just as they are allocated a slice of the system benefits, Judge replied.

Does your proposal envision a different role for Bonneville in terms of accommodating full requirements customers vs. a utility that only purchases a smaller portion of their load from us? Rettenmund asked. My understanding is that this is one point of disagreement between the public interest and joint customer proposals, Judge replied; under our proposal, Bonneville's role would be the same for both full requirements customers and other customers requiring a lesser degree of service.

Are there plans for more significant discussions between your organization and the other Bonneville customers between now and the October 18 close of comment? Burns asked. Yes,

Judge replied – we’re not far apart on many of the mechanisms or on the conservation target, but renewables may be more problematic. The fish issue will also be a challenge, he said, but we’re continuing to talk.

### ***Presentation of the United Steelworkers of America Proposal***

The next presenter was Gil Hayes of the United Steelworkers of America. He thanked the committee for the opportunity to share the Steelworkers’ views, and noted that his organization has been closely involved in the process that led to the development of the joint customer proposal. Hayes said the only point of disagreement between the Steelworkers and the other customers has to do with the 600 aMW allocated to the smelters; the Steelworkers’ proposal is 100 aMW to each viable smelter. There were 10 smelters in the region before the energy crisis last year, said Hayes; at least one of those 10 has shut down for good, and another is on its way out. That leaves eight smelters, or 800 aMW in load, that could return to service if power was available at an acceptable price. It seems to me that your two sides aren’t very far apart, said Bartlett. I agree, said Hayes. He then read the following proposal from the United Steelworkers:

- The United Steelworkers (USWA) supports a comprehensive Northwest energy policy that provides adequate, affordable and diversified supplies of energy in an environmentally sound manner that also preserves Northwest aluminum jobs.
- The aluminum industry has been an integral part of the Pacific Northwest since 1937, when industrial customers were sought by Bonneville Power Administration to provide a stable revenue base
- Today, with continued energy from the FCRPS, the network of aluminum smelters would provide thousands of jobs and stimulate some of the Northwest’s most economically depressed areas, such as Klickitat and Wasco Counties
- With Washington and Oregon recording the highest unemployment rates for the 12<sup>th</sup> consecutive month, the region urgently needs to retain valuable aluminum jobs in the region
- The industry provides, on average, wage and benefits of nearly \$50,000 per year, compared to \$37,000 for Washington State’s average
- Every aluminum industry job supports 2.9 jobs elsewhere in the economy
- The industry provides significant property tax benefits – in Washington State alone, the industry contributed \$129 million (0.9%) in state and local taxes in 1998
- According to John Stucke of the *Spokane Spokesman-Review*, “Smelters... have long been among the nest big-labor jobs in the state
- The aluminum industry also helps stabilize BPA rates by preventing power from being sold to the market at low rates during years when there is a surplus of power

With respect to our actual proposal as to what BPA allocations should be to the DSIs after 2006, said Hayes:

- With a high level of uncertainty about the Northwest’s aluminum industry, it is unclear what the level of operation will be in the future. However, every effort should be made to retain operations in the Northwest and to keep businesses viable by making affordable power accessible.

- The United Steelworkers supports a fair and modest minimum allocation of 100 megawatts to each operating smelter, contingent upon the following:
- Full compensation for all affected workers during any limited energy curtailment of no more than six months
- Aluminum companies demonstrating long-term viability with stable outside power contracts or independent production of matching energy to augment the limited BPA power.
- The United Steelworkers additionally supports five-year credit support to the DSIs for the development of additional power including renewable energy and other environmentally-sound generation.

The USWA additionally supports the following, Hayes said:

- Modulation agreements, where less power is used during peak times and more during off-peak times
- Interruptibility rights, giving BPA the ability to interrupt service (with advance notice and appropriate compensation) in times of severe drought when relying on hydropower would negatively impact threatened fish species
- An FCRPS that achieves the legal responsibility of salmon restoration and recovery
- Adequate investments in conservation, renewable energy and cost-effective energy efficiency services to meet a minimum level of standards.

In conclusion, said Hayes, the United Steelworkers believes this proposal will help to create a flexible Northwest energy system that would:

- Stimulate the region's economy
- Maintain workers' income during energy curtailments
- Reduce the threat to salmon during low-water years
- Provide new sources of highly-efficient energy at-cost to BPA and
- Help keep rates affordable for all customer groups.

#### ***Presentation of Proposal #4***

Tim Gregori of Central Montana Electric Power Cooperative was the next presenter. He described his co-op's service area and products, noting that, with the advent of the 1992 Energy Policy Act and FERC Orders 888 and 889, Central Montana was able to avail itself of the benefits of a wholesale power purchase relationship with Bonneville, and is now able to access the transmission system as well. On June 22, Central Montana began purchasing electric power and related services from BPA, allowing a needy segment of Montana's electric consumers access to public power, Gregori said. We have shared the financial benefits of this relationship with our total membership, he said.

Central Montana's requirements from BPA are currently being met with a combination of Hungry Horse generation, and excess federal power not fully subscribed by regional customers with preference rights, Gregori continued. Central Montana understands that all purchases must be made in accordance with the regional Power Act and BPA's Excess Federal Power Act.

Access to reliable and affordable quality wholesale electric energy will be a key component in the ability of our member systems and the member systems we serve to continue their important role in the rural reaches of central Montana, Gregori said. The cost of electric energy is an important variable in the economic viability of agriculture producers, small businesses, homeowners and community service providers. In many instances, a modest increase in the cost of energy would dramatically undermine the ability of the aforementioned entities to continue breathing life into the struggling segments of the Montana landscape we serve, Gregori said. Although we were not part of the joint customer proposal development process, he said, we believe our proposal is in accordance with what they have already presented to you.

Central Montana believes that the power supply relationship that has been in place with BPA since June 2000 should continue, Gregori said. We understand that as regional demand on BPA's resources grows, access to the regional surplus currently used to meet our proposal will diminish. However, there is language in our contract that establishes a criteria under which our mutual interest can be preserved in the event that demand on BPA resources exceeds traditional supply, said Gregori. Under the terms of our contract, which extends to 2017, as Central Montana's access to EFD and Hungry Horse Reservation power diminishes as a function of regional demand, external purchases of wholesale energy can be requested to fill the gap as necessary.

Traditional regional customers have the right to step forward and purchase power in accordance with their preference rights, Gregori said; BPA has had the obligation to meet their needs within the limits of the energy resources they produce. Our proposal would ensure that traditional regional customers maintain first right to the benefits of the federal system, he said. All activities undertaken by BPA to meet Central Montana's needs will not conflict with those of preference regional customers.

The statutory production/purchase relationship that exists between BPA and the customers it serves is not a relationship Central Montana views lightly, Gregori said; given the same opportunity, we would closely guard these benefits as well. However, once BPA has made an assessment, and engaged in a process to match projected resource availability with need, there should be some latitude for action taken to assist in fulfilling our needs while holding the region harmless of any risk, said Gregori.

Under our scenario, the region would have first bite at the apple, and there will be no limitations placed on BPA or their members as they try to meet the needs of their particular systems, Gregori said. Clearly, BPA's first responsibility is to meet the region's energy demands, while our needs are secondary, he said. However, once BPA has acted to meet the needs of the region, Central Montana should be permitted to step forward with an arrangement that would allow us to work in concert with BPA to meet our needs, said Gregori. Central Montana would be required to assume total financial responsibility associated with transactions, he said, and the region would bear no exposure to the implications of any of our purchases.

The acquisition of wholesale resources from non-BPA facilities to meet our needs would be structured to protect regional preference customers, while spreading the non-tangible benefits

of the federal system without casting a shadow on the regional power supply nexus, Gregori said. In our view, this could be truly a win-win situation for both the region and the members Central Montana serves. This proposal could also serve as a model for others to meet their needs in the event that BPA resources were fully allocated and customers would be required to bear the responsibility for developing power supply portfolios to meet their residential needs, Gregori said.

As the all-requirements power provider of the electric energy and related services for the member systems we serve, Central Montana has traditionally, in essence, taken title to all wholesale power that flows through us to the member system we serve, Gregori said. A scenario where we would be required to assume ownership of wholesale power specific to the needs of our customers in order to access related ancillary services from BPA may be the answer to our dilemma. Any costs associated with providing load shaping, scheduling and resource delivery services would be borne by Central Montana, with the potential for positive residual attributes of the transactions being made first to BPA. A transaction resulting in power flows from west to east may also make a small contribution to relieving transmission system constraints resulting from the heavy flow of energy from east to west, Gregori said. Granted, the magnitude of this problem is much greater than will be relieved through meeting our needs, he said, but this will still be a step in the right direction.

Expanding the benefits of the FCRPS to a wider system of customers without adversely impacting the regional energy consumers with first right to the resource should be viewed as a good thing, worthy of broad-based support, said Gregori. A small savings in the price paid for electric energy and related services could hold in the balance the ability of many rural farms, ranches and businesses to survive in the vast area we serve. BPA's willingness to help facilitate power purchases to meet our needs from non-federal system generating entities holds promise, he said. Reasonable assistance from BPA would go a long way toward putting in place a shaped firm product closely resembling Central Montana's existing power supply situation, Gregori said.

#### ***Q & A on Proposal #4***

Burns asked whether the Co-Op has talked to the other customers; your proposal seems to be that all costs are borne so that there isn't any financial burden, and I was wondering if you've talked to the other customers about that, he said. We wouldn't expect Bonneville to make all of our purchases for us, Gregori replied; rather, Central Montana would facilitate the transaction. In certain instances, for example, to enable public entities to meet the public private use test for their financial obligations, Bonneville would need to be in the loop with regard to the transaction so that they didn't lose the 95/5% test rule, said Gregori. In general, however, Central Montana would take the lead, with Bonneville's assistance, to secure the resources to meet Central Montana's needs, said Gregori.

### **3. General Comments**

Jim Maunder of the National Center for Appropriate Technology (NCAT) said his organization has promoted renewable energy in the Northwest and across the country for 25 years. BPA needs

a consistent approach to conservation and renewables, he said; the Northwest used to be a national leader, but regulatory change and deregulation has made most conservation and renewables programs nonexistent. Ramping these programs up and down isn't the answer, he said; conservation and renewables need to be at the forefront of Bonneville's resource acquisition strategy.

Have you looked at the public interest proposal presented earlier tonight by Patrick Judge? Hines asked. I have not yet read it, so I can't say whether or not NCAT would support it, Maunder replied.

Next up was Brad Lynch of the United Steelworkers of America, who reiterated some of the main goals of the Steelworkers' proposal: adequate, reliable and affordable supplies of energy, friendly to the environment and preserve Northwest jobs. These jobs are vitally needed in small rural communities, he said; Oregon and Washington have had the highest unemployment in the country for 12 straight months. We also need domestic supplies of strategic metals for national security, said Lynch. We need to work together as a region to slice up the power pie, to preserve the benefits of the federal power system for the region. If we let the East Coast tell us what to do, he said, I guarantee none of us will like it.

Next was Don Henning, another steelworker of 24 years standing. Henning said that when he started working in this industry, the Northwest aluminum industry had an annual allocation from the federal hydropower system of 3,000 MW. The Steelworkers are now asking for a minimum allocation of 100 MW of affordable power for all operating smelters, he said. The county I live in has the highest unemployment of any in Washington, which has the highest unemployment in the nation. When you save the salmon, remember the aluminum workers as well, he said – if we work together neither needs to be an endangered species.

Next, Mark Stauffer of Northwestern Energy expressed his agency's support for the joint customer proposal; he said they have been integral participants in the development of this proposal, and lauded it as a historic exercise in Northwest consensus-building. As a region, said Stauffer, we're still in a transition period, and are in something of a precarious situation – firm supply is still potentially short of demand, with few new resources coming on line anytime soon. We need to know what Bonneville' role is going to be – whether BPA will be acquiring resources for the region, or whether the customers will take on that role, he said. NWE believes the customers' solution would be in the best interests of the region, because it is the customers who best know their needs, and know what resources are available to meet those needs, Stauffer said. Clarity about the responsibility to acquire resources for the region is essential to our regional well-being, he said, and Northwest Energy encourages Bonneville and the Council to work with the customers to implement the joint customer proposal.

In response to a question from Hines, Stauffer said Northwestern Energy is in agreement with the other IOUs in the region that Montana customers of Northwest Energy should receive 2% of the 3,300 aMW allocated to the Northwest's residential and small farm customers; however, that decision ultimately resides with Bonneville. We view the implementation of the subscription process as a significant, incrementally positive step, and we are hoping to receive additional increments in the future, said Stauffer.

Beth Berlin of the Northwest Energy Coalition was the final commentor of the evening. She said her organization supports the public interest proposal presented by Patrick Judge earlier in the evening. There are a couple of things that need to go into any proposal, said Berlin; first, that BPA needs to meet its moral and legal obligation for salmon recovery. Scientists agree that the best way to restore wild salmon and steelhead populations in the Northwest is to remove the four Lower Snake dams. Furthermore, a recent report from Rand, a prestigious independent think-tank, states that dam removal and economic health can go hand in hand. We also believe that the Northwest needs to diversify its energy portfolio to include more clean conservation and renewables, to ease pressure on the hydrosystem and reduce our dependence on fossil fuels. In our view, said Berlin, the public interest proposal will lower customers' energy bills and create good jobs in the region.

Gerald Mueller, a Missoula resident, commended the customer groups for working together to develop a proposal that will preserve the benefits of the federal system for the Northwest. He said he is concerned, however, about the short schedule for this decision, which will have a major impact on Bonneville's role in the future. There are many points of the customer proposal that are not yet clear, in particular, the customers' desire to have a meaningful and enforceable role in setting BPA's rates. The Council is also in the process of revising the Power Plan, he said; I hope you won't constrain yourself to making this decision by next spring, but allow enough time to do a thorough and thoughtful job.

Mueller reiterated that he is concerned about how fast this process is going, and is also apprehensive about the idea of returning to a decentralized approach to resource planning and acquisition. Mueller said he is concerned that if each utility is charting its own path, that's not going to add up to what is optimal to the region. Proposals of this magnitude always have unforeseen consequences, he said; you need to allow enough time for a thorough analysis of those possible vectors. You have also deliberately excluded two of BPA's biggest customers from this process, he said, both California utilities; it is unlikely that they will sit idly by and allow you to carve up the pie without their input.

#### **4. Summary**

Burns said he was encouraged by what he had heard at tonight's meeting, for several reasons: that there appears to be broad endorsement of the idea of preserving the benefits of the federal power system for the Northwest, and that there is considerable buy-in on the basic principals of the joint customer proposal. It also sounds as though we're a lot closer on some of the points of contention than many in the region thought, he said, although there is obviously some work to do on the numbers. A number of contentious issues remain, obviously, said Burns – in particular, the idea of meaningful and enforceable customer oversight of Bonneville's budgetary processes, as well as some fish and wildlife and conservation and renewables issues.

Bartlett said he was impressed by the significance and magnitude of the joint customer proposal; it is also heartening to hear from a broad spectrum of citizens at these meetings, he said. Contrary to a comment I heard last week, said Bartlett, this process does not constitute an

identity crisis for Bonneville. I think it is important to hear from everyone concerned in this process, as we are both obligated to do and want to do, he added.

Hines, thanked everyone who attended tonight's meeting for taking the time to think about these important regional matters, and for preparing proposals and/or comments. We've heard some thoughtful and substantive proposals and ideas regarding the future power supply role of BPA, he said, reiterating that all proposals received are posted to the Council's web site, [www.nwcouncil.org/bpa](http://www.nwcouncil.org/bpa) and any new proposals, revised proposals, or comments received by the October 18 deadline will be posted to the same web site. In addition, notes from this meeting and the other five public meetings will be posted to BPA's and the Council's web sites, said Hines.

After the close of comment period, BPA will take all of the proposals, comments, and ideas received and begin to formulate its draft proposal for the region to consider, Hines said; this proposal should be available around the first of the year. At that time there will be another round of public meetings and a public comment period, before BPA makes a final decision and publishes a Record of Decision.

The FCRPS is a tremendous resource for the region, with great importance both economically and environmentally, Hines said; we thank you for your input on these crucial questions. With that, the meeting was adjourned.