

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

September 16, 2002
West Coast Hotel, Pasco, Washington

1. Greetings and Introductions

The first regional dialogue public meeting on potential changes to the Bonneville Power Administration's power supply role after 2006 was held September 16, 2002 at the West Coast Hotel in Pasco, Washington. 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 website.

The meeting began with an open house, at which the Bonneville and Power Planning Council representatives exchanged informal conversation with the other meeting attendees. This portion of the meeting also included an audio-visual presentation titled "The Future of Bonneville Power Administration: Potential Changes to Bonneville's Power Supply Role After 2006."

Northwest Power Planning Council member Tom Karier began by noting that this meeting is one of six public meetings to be conducted throughout the Northwest to seek public input on this very important topic. We wanted to provide some background on these meetings, which were set up to discuss proposals submitted in response to a joint letter of solicitation, sent out by Bonneville and the Power planning Council in June, soliciting regional input on how BPA will market the power and distribute the costs and benefits of the Federal Columbia River Power System (FCRPS) in the Pacific Northwest after 2006. All who are attending tonight's meeting are welcome to comment, Karier said.

Electricity is a very important part of the Northwest economy, Karier said; we spend about \$8 billion per year on power, 45% of which flows through the federal system. The decisions we make in this process could have extremely far-reaching impacts to our regional economy, Karier said; that's why these meetings are important -- we owe it to ourselves and our future generations to take a careful look at all of our options.

Paul Norman of Bonneville noted that BPA has contracts that commit the output of the FCRPS for the next nine years. Despite that fact, he said, we feel the discussion we're embarking on tonight is essential. The West Coast, and the Pacific Northwest in particular, needs generating and transmission infrastructure to secure a reliable power supply. One comment we hear frequently from companies interested in developing new resources is that the greatest impediment they face is the fact that they can't get anyone to commit to buy the output of their power plant, Norman said. The main reason for that is that their potential customers aren't sure how much power they're going to be getting from Bonneville, he explained. We need to clarify who gets how much power from the federal system, long-run, he said.

Second, said Norman, we don't want to find ourselves in the position we were in last year, in which we were heading into a new contract period, and were facing an additional 3,000 aMW in load, without enough power to serve it. Third, we believe the national pressure with respect to one part of the country receiving the benefits of the federal hydrosystem is only going to increase in the coming years; the best way to defuse that pressure is to secure the benefits of the FCRPS for the citizens of the Northwest through new contracts that lock that value in for an extended period.

At the end of the day, the decisions about where the power goes are made, by law, by the Bonneville administrator, Norman said; however, unless those decisions are made with the full input of all the region's stakeholders, they will not be as appropriate or sustainable as they should be. Ideally, he said, we would like to see as much consensus as possible among the parties with a stake in how the region's power system is operated. We want to hear from all of you, said Norman, so that we ultimately make the best possible decisions.

Bonneville's Fred Rettenmund encouraged the meeting participants to review the written BPA base case, available at tonight's meeting, which provides a detailed description of the contracts between Bonneville and its public agency utility and investor-owned utility (IOU) customers. Rettenmund noted that, while most of these contracts run through 2011, Bonneville's contracts with the direct service industries (DSIs) only run through 2006. We also need to provide greater clarity about what the form of the benefits will be for the investor-owned utilities in the post-2006 period, Rettenmund said

Power Planning member John Brogoitti welcomed everyone to Pasco; he noted that the times we're having right now are extremely important; we need to be very vigilant about what we're doing and how we're going about it. It could cost our regional economy a great deal if we choose wrongly, Brogoitti said; we welcome your comments on this very important topic.

Karier noted that the minutes from tonight's meeting are a part of the public record; they will be available soon via the BPA website.

2. Proposals

The first proposal presented was the joint proposal of Northwest utilities; this presentation was led by Jim Sanders of Benton County PUD, who noted that the joint customer proposal

represents a regional consensus of public and private utilities. We have been working on this proposal for well over a year, he said. The proposal you see today answers many of the questions Bonneville had on our initial draft of the proposal, Sanders added.

In a nutshell, he continued, this proposal gives the utilities in the region more say over how the power supply is managed, fairly allocates the benefits of the FCRPS, keeps them in the region, requires no new legislation, 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.

John Sabin discussed the goals and objectives of this proposal. Working from a series of overheads, Sabin 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.

Next, Loren Baker described the way Slice would work under 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 output from the 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 – droughts and floods

- 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.

Sabin then discussed how requirements service would proceed under the joint customer proposal:

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

Lyn Williams then discussed how residential and small farm customers of investor-owned utilities would be treated under the proposal:

- 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.

Next, Sanders discussed BPA cost controls under the proposal:

- 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

Sanders also went through the DSI service proposal laid out in the joint customer 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 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.

Next, Williams addressed the conservation and renewables provisions in the joint customer proposal:

- The goal is to acquire cost-effective conservation and renewables
- Northwest 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.

Baker then discussed the fish and wildlife obligations under the joint customer proposal:

- 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.

Baker also covered the "System Operations" portion of the presentation:

- 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.

In summary, said Baker, a year or so ago, Bonneville gave its utility customers a charge; we believe we have met that challenge. Specifically, our proposal is comprehensive, it preserves the long-term benefits of the FCRPS for the Northwest, and it is designed to withstand a wide range of political and economic conditions. It offers clear advantages to the taxpayer in the form of improved probability of Bonneville making its Treasury repayments, does not require additional legislation, and clearly defines the responsibilities for meeting future load growth in the region, Baker said.

Saven emphasized that this presentation is only an overview of a very complex proposal; he encouraged all interested parties to review the full text of the joint customer proposal to obtain the full details of the proposal.

The next presenter was Steve Weiss of the Northwest Energy Coalition. He described the purpose and membership of the coalition, then said the Alliance 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 Weiss, and we're hoping for a very positive outcome to the negotiations, so that we can fully support the 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.

Weiss 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 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 Weiss.

However, we believe that the NWPPC should determine how much conservation is cost-effective in the region, Weiss said; the Alliance 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, Weiss said.

With respect to the renewables target, we see that as something that should be stable and standardized, said Weiss; 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 300 aMW/year, Weiss 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, new combustion turbines.

We look forward to working with the utilities to develop these targets and the mechanisms to reach them, Weiss said; we're a bit apart on some of the details, but we're confident that we can close those gaps. Weiss 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 Weiss; he encouraged Bonneville and the Council to take a close look at the Steelworkers' proposal.

Next up was Gil Hayes of the United Steelworkers of America. He presented the following proposal:

- The United Steelworkers (USWA) supports a comprehensive Northwest energy policy that provides adequate, affordable and diversified supply 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 12th

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 best 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.

The next presenter was Kel McAboy of Save Our Wild Salmon. We have a public interest proposal, also available via the www.wildsalmon.org website, McAboy said; she then read through the highlights of this proposal:

- BPA must meet its legal and moral obligations to salmon recovery. So far, even after spending billions of dollars, the government's salmon recovery efforts have been a dismal failure. Biologists agree that the best way to restore wild salmon and steelhead is to remove four dams on the Lower Snake River. Furthermore, a recent report by RAND, a prestigious, independent think tank, demonstrates that dam removal and economic health go hand in hand.
- The Northwest must diversify its energy portfolio and increase its investment in clean, renewable resources such as wind and solar energy in order to lessen the pressure on endangered salmon and salmon-dependent communities, and to prevent global warming. Clean renewables and cost-effective conservation should be used to meet increases in our regional energy demands instead of more fossil fuel plants.
- Most importantly, we need to tell BPA that the public interest proposal to support salmon restoration, clean, renewable energy and energy efficiency is the right answer for the region. It's good for salmon. The proposal 1) prevents utilities and BPA from leaning on the river to solve financial crises, 2) gives salmon an equal voice in river operation decisions, and 3) doesn't turn control of the river over to the utilities. It's good for our future. The proposal's conservation and renewable strategy will lower customers' bills and create good jobs without polluting the environment.

McAboy added that many of the jobs created by conservation and renewables investments will be on the east side of the Cascades, where such employment stimulus is badly needed.

3. Public Comment

The first speaker of the night was Carl Van Hoff, representing Energy Northwest. We have submitted a letter in support of the joint customer proposal, he said; we think it contains a lot of benefit for the region. We believe the joint customer proposal provides a strong basis for Bonneville and the Council to build upon as they move forward, said Van Hoff. One of the most impressive things is that it recognizes how finite the federal system is; it also requires other, non-federal parties to step forward and shoulder the burden of bringing new resources to the region.

Van Hoff described his organization's recently-completed Nine Canyons wind project, and the challenges they've faced in bringing it to fruition – in particular, the requirement that the project be cost-effective in a very competitive market. He noted that this project retains the agricultural nature of a large part of Benton County. Renewables are great, said Van Hoff -- they're helping us to become something we wanted to become. Van Hoff said, however, that he

would be very surprised if the region can meet all of its load growth through conservation and renewables, however desirable that outcome would be. He thanked BPA for engaging in this process now, rather than later, when the rate case process was well underway.

Debi Watson of the Umatilla Electric Cooperative was the next commentor. She said her organization will be submitting written comments on the joint customer proposal. In general, she said, we're supportive of BPA offering 20-year contracts. Second, she said, we believe that everyone in the region should pay for salmon recovery in the region; those costs should be removed from BPA's rates. That would avoid an unfair burden on any individual ratepayer or citizen she said.

The next speaker was Brad Lynch of the United Steelworkers, who began by saying that the aluminum companies originally came to the Northwest in the late 1930s to help utilize the vast pool of hydropower newly created in the region. Second, said Lynch, this usage is critical to make home electric rates affordable to the general ratepayer. Third, he said, this usage helps BPA revenues by preventing the sale of power at low market rates when there is a surplus of power. Fourth, and most important at a time when we are fighting a war on terrorism, we desperately need to keep the production of strategic metals for various military applications here in this country, rather than relying on foreign markets which may not have a friendly feeling toward the U.S. at the time of our need. In closing, he said, the United Steelworkers proposal would allow many workers to re-enter the job market of a now shut-down industry, as well as thousands of spinoff jobs.

The next speaker was Tom MacKay of AgriNorthwest, one of the largest utility customers in Benton County. As utility rates go up, MacKay began, we find ways to cut costs, which mainly means cutting jobs. An overriding mission of BPA in the post-2006 period should be supplying low-cost power, he said. We need to understand that renewables cost 4-6 times what hydropower costs, he said; while I am for saving salmon and for the proper funding of environmental issues, in the world economy today, you must be efficient. If we can't provide that low-cost power, he said, our economy will not be efficient enough to allow us to fund those environmental issues. If we want to save fish, we need to have low-cost power, said MacKay.

Next up was Larry Ring, representing the J.R. Simplot Company. We are for stable energy prices, he said; we looked all over the country before setting up this facility, and chose the Pacific Northwest, in part because of the availability of the raw agricultural products we need, and in part because of the low and stable energy prices here, despite the higher transportation costs to Midwestern and East Coast markets. The rate increase of last year has had a significant impact on our margin, he said; we urge you to implement the most stable rates possible in 2006 and beyond.

The next speaker, Troy Berglund of Benton REA, said cost-cutting and stable power rates are a major concern of his utility. He said that, in Benton's view, the joint customer proposal shows the most promise; we look forward to working out the details of that proposal with others in the region, he said.

Darryll Olsen, representing the Columbia/Snake River Irrigators, said his constituents

also support the joint customer proposal; in many ways, he said, we seem to be going through Phase 2 of the Northwest Power Act. Much of what has been stated here this evening is reminiscent of discussions that took place in 1978-1979 when power allocations were at the forefront of everyone's mind.

Olsen doubted that anyone in this room would want to repeat the last 20 turbulent years in the energy marketplace; however, he said, mainstem operations are the key to the energy marketplace in the post-2006 period. We would strongly recommend that you look closely at existing mainstem operations; there are some important proposals from the states as to how to reduce the cost of operating the FCRPS, and of the fish and wildlife program. What happens to power costs over the next few years is one of the single most important issues facing the region, Olsen said; we hope the Council and Bonneville will consider it very carefully.

Marlene Oliver, an environmental consultant from Richland, described her academic background, then said she sees a variety of lower-cost ways of helping salmon that would greatly benefit fish in the Northwest. She said she had just returned from Europe, and noted that half of the wind generators she saw in Holland were not in operable condition. Based on my observations, she said, it is questionable whether the European wind generating systems many Northwest wind farms have chosen will be reliable over the long haul. Also, she said, persuading Northwest residential and industrial customers to voluntarily reduce load further doesn't seem a viable alternative. She suggested that, as in Europe, nuclear power is the most viable alternative for the Northwest; Oliver noted that new technologies make nuclear waste much simpler to transmute and recycle. She urged Bonneville, Energy Northwest and other stakeholders to give serious consideration to the nuclear alternative.

Next, Ken Sugdon of Franklin PUD said his utility also supports of the joint customer proposal. We are meeting our load growth with conservation, renewables and purchases, he said; we have contracted for half of the output of the Fredrickson project in Tacoma, and have built a peaking plant in conjunction with Grays Harbor PUD.

Sugdon said he has devoted many hours to attending meetings on the joint customer proposal; it is a balanced proposal, he said, noting that, from what he has heard from the other interest groups tonight, he is quite encouraged. We're in favor of conservation and renewables, in favor of saving salmon, and in favor of retaining regional control of the river system, Sugdon said.

Next up was Van Walkley of Columbia REA, a farmer with 2,300 acres of irrigated land near Ice Harbor pool. It is truly a family farm, founded in 1867, he said; we, too, support the joint customer proposal. It will be good for the region for a couple of reasons, he said; first, it will make BPA a viable power supplier, allowing BPA to cut costs and ensure Treasury repayment. The proposal also calls for cost-effective fish and wildlife protection and conservation, he said; we need to bring the cost of energy back to a reasonable level, he said.

John Parker of Columbia REA in Dayton, Washington, reiterated that this organization supports the joint customer proposal. There are some very interesting and innovative details in that proposal, he said; in particular, the idea of credit support for the DSIs' resource development

programs. The proposal is an excellent compromise that goes about as far as we can go without additional legislation, Parker said. He added that some of the proposals, such as relieving Bonneville of its fish and wildlife obligations, would require additional legislation, which Columbia REA does not support.

The next speaker was Don Lovell of the Save the Salmon on the Columbia and Snake Rivers Foundation, who described his research work on water quality in the Lower Snake River. The bottom line is that the dams need to be saved, he said, noting every dam in the system has people buried in it – 17 in The Dalles alone. The dams aren't doing that much harm, said Lovell; the bottom line is that we need to work together to bring the salmon back. It will work, he said; we put a man on the moon, and it just takes funding and the right people.

Lovell went on to suggest that another dam is needed here in the Hanford Reach. We need to save our dams, he said; we also need to put a powerhouse in the Coeur d'Alene dam. We can fix everything we want to, said Lovell; we just have to try, for our grandchildren's sake. If we take the dams out, the pulverized concrete will kill every fish from here to the ocean; also, every irrigated farmer in the basin will lose his livelihood.

Next up was Bruce McCaw, a small irrigated farmer in the Walla Walla Valley. He said he supports the joint customer's proposal, but has a semantics problem, in that he does not understand how "renewable" energy is defined. McCaw asked why the hydrosystem should not be counted as a renewable resource; we should not be forced to buy outside power just so we can say we're green, he said. McCaw said that, in his opinion, the Northwest should not be subjected to the uncertainties of renewables, and the problems of a standard market design. The new RTO under discussion could also cause real problems in terms of increased rates in the Northwest, he said. Most farmers in the Northwest are at a disadvantage, in terms of higher transport costs than farmers in the Midwest, McCaw said; our saving grace has been lower electricity prices. Those lower prices are rapidly evaporating, he said, and asked the Council and Bonneville to take that fact into account in making this decision.

4. Q & A Session

Marlene Oliver observed that last year's California energy crisis was the primary reason for the sharp increase in Northwest power rates; she asked what BPA is doing to address how to keep California's hands off Northwest energy, given the fact that they are on the same grid. First, we would like to get paid for the power we sold them last year, Norman replied; they still owe us \$70 million. As the FERC process unfolds, we do have some worries, he said; the main bulwark against what you're talking about has been Regional Preference, and we would like to keep that bulwark in place.

Steve Weiss asked about the idea of the customers being involved in Bonneville's budgeting process, noting that this is an aspect to the joint proposal he hadn't seen before. That sounds more like an ownership arrangement, he said; perhaps you could explain that piece a bit more. What we're suggesting is an advisory committee, replied Saven; we understand that we don't have the legal authority to control that process. We believe it would be good public process to have customers and others participate in what Bonneville is doing, Saven said. Also, to the

extent that customers sign 20-year contracts, there needs to be a mechanism to ensure that what is promised is actually delivered, he said. The customers decided to avoid a detailed explanation of how this might work until we can discuss how it might work in more detail with Bonneville, he added.

5. Closing Remarks

Norman said today was the first time he has seen this version of the customer proposal; he agreed that it appears to address many of BPA's concerns. It is pretty remarkable that every customer save one in the region endorses this proposal, he said. Norman went through some of the other main messages he took away from tonight's meeting:

- There needs to be a smaller Bonneville footprint in the power marketing arena
- We need to create a common customer interest in Bonneville affairs
- The customers should be responsible for meeting their own load growth, with greater self-determination in the resource acquisition arena
- Outstanding litigation needs to be settled, and new litigation minimized
- The cornerstone of the proposal is expanded Slice, in which customers pay costs, take the risks and, in return, receive a pro rata share of the system output
- Stabilized conservation and renewables is another key
- The ability of the action agencies to meet their fish and wildlife obligations would not be impaired under this proposal
- No new legislation would be needed in order to implement this proposal
- Residential customers and IOUs would receive their share of the system primarily through dollars
- Customers want to participate in Bonneville's budget process in an enforceable way
- The proposal would allocate 650 aMW to the DSIs
- Conservation and renewables advocates continue to work closely with the customers who developed this proposal to expand the percentage of load growth that would be met through conservation and renewables; steady, consistent funding for conservation and renewables is another key element of the proposal. There is agreement on many of the mechanics under which this would come to pass.
- One area of disagreement include how many megawatts of conservation and renewables would need to be developed
- Another area of disagreement is the amount of power to be allocated to the DSIs, although there is general agreement with the concept of interruptibility, and the need to help workers during periods of service interruption
- The aluminum industry has long played an important role in the regional economy, providing significant economic and employment benefits
- The United Steelworkers would like to see at least 100 aMW allocated to each operating smelter; they also advocate the concept of interruptibility rights for environmental benefits and of compensated workers during those interruptions. The concept of credits from Bonneville to support aluminum company resource development is also supported by the workers.
- The Save Our Wild Salmon proposal focuses on enforceable agreements for river

operations, avoiding economic incentives that depart from river operations that benefit fish, and strong support for conservation, renewables and a diversified resource portfolio.

- Many of tonight's participants expressed strong support for the joint customer proposal.
- Many of tonight's participants also said the paramount post-2006 issue, to them, is costs and rates; they need to be stable and low. Without low rates, the economy suffers, and funding for fish and wildlife recovery will be reduced.

Karier also went through some of the main points he had heard at tonight's meeting:

- Support for stable energy prices
- Support for cost-cutting at Bonneville
- Concern about mainstem operations
- Considerable support for the joint customer proposal
- Concerns about the reliability of wind power
- Concern about the viability of increased customer conservation as a viable option to meet load
- Concern about the cost of river operations and fish and wildlife recovery
- Support for credit support for the DSIs (there were others, listen to tape)

We have heard a lot of thoughtful, substantive comments about the future of Bonneville, Karier said; he thanked everyone who attended tonight's meeting for some of the most clear and concise comment Bonneville and the Council have heard to date. Again, he said, the deadline for written comments is October 18. At that point, the Council will review all of the proposals and comments received, and develop our recommendations to Bonneville on behalf of the four governors. All proposals received, as well as the minutes from the six public meetings, will be available via both the Northwest Power Planning Council and Bonneville Power Administration websites. Once the comment period closes, he said, Bonneville will take the Council's recommendations and develop a draft proposal for the region's consideration; there will then be another opportunity for comment, including another round of public meetings like this one.

With that, the Pasco meeting was adjourned. Meeting summary prepared by Jeff Kuechle, Bonneville contractor.