

Bonneville Power Administration Financial Choices Public Meetings

**Portland, Oregon
August 15, 2002**

**Sheraton Airport Hotel, 1 - 4 p.m.
Approximate Attendance: 70**

Opening Remarks

Meeting facilitator Hugh Moore (BPA) welcomed the audience and laid out the purpose of the meeting and the expectations. He referred participants to the purpose statement at the top of the agenda: *to conduct a full and open discussion concerning BPA's financial choices issues in which attendees engage each other in the discussion and everyone who wants to be heard has that opportunity.*

The meeting format is something of an experiment for BPA, and the success depends on your participation, Moore told the audience. We encourage you to have a discussion with one another, he said, adding that it is perfectly acceptable, as well, for participants to decline follow-up questions and discussion if they wish only to comment. Moore indicated participants would have three to four minutes to make a statement and could also submit written statements if they wish. He told participants not to be shy about jumping in to change the subject when their turn comes around to speak. "We want to put folks at ease to say what's on their mind," he said.

Senior vice president Paul Norman (BPA) gave a brief overview of BPA's financial situation. We began the rate period with \$800 million in cash reserves, but at the end of this fiscal year, we expect to be down to around \$100 million, he explained. And things are not looking good in future years, Norman added. Our problem has big implications and the potential for "economic pain" for others in the region, he said. BPA needs to make decisions about certain things in its financial future, including the appropriate level of internal program costs; whether to push some costs out to the future, and if so, what level; and how much more risk, if any, BPA should take in meeting its payment to the U.S. Treasury. In this process, we will not be determining actual rates, but the outcome will have a lot to do with rates, Norman stated.

The benefits of the federal hydro system belong to the people of the Northwest, and the people who are affected should be involved in helping us to make these decisions, he said. Much of what is to be determined is "a question of values," and we need to hear from you and you need to hear from each other on the importance of the values, according to Norman.

He described the expectations BPA had when it set rates for the 2002 to 2006 rate period, which included serving 1,500 megawatts (MW) of load beyond what federal resources

could cover and increasing fish and wildlife (F&W) spending by \$100 million. We thought we could accomplish these things without a rate increase through increased efficiency and with revenues gained from selling surplus power at historically high prices, Norman said. And we expected to be able to do this with a high probability of making our Treasury payment, he added. Then we got “a big slap in the face” from reality, Norman acknowledged. The big question now is what are our options for managing the situation and what is most important, he stated.

Kim Leathley, BPA’s manager of business strategy, finance and risk management, picked up where Norman left off, explaining the reality BPA faced beginning in January 2001. We had 3,000 MW of load to serve above what our resources could cover right at the time the power market started “its vertical climb,” she said. We were also having an extreme low water year, which taxed our cash reserves, Leathley said. She described the additional costs BPA was facing with O&M, infrastructure investments and conservation, but she said the expectation was that prices would be higher for surplus energy.

Leathley said BPA departed from the fixed-rate concept in 2001 and established surcharges (cost recovery adjustment clauses or CRACs) that isolate various types of costs. She went on to explain how the surcharge mechanisms work to manage the risk and uncertainty BPA faces in its operations. To illustrate the uncertainty, Leathley pointed out a graph in a letter Paul Norman sent to the region. The graph indicates BPA has a one in five chance of breaking even financially at the end of the rate period and a one in five chance of losing \$2 billion dollars, she said.

BPA has developed five approaches that provide an analytical framework for making a decision on how to manage the financial situation, Leathley continued. She described the approaches and what each would mean in terms of BPA’s expenditures, use of financial management tools, treatment of risk, and the potential for rate adjustments during the 2002 to 2006 period. The approaches are: 1) use the rate mechanisms (CRACs) in place to close the \$860 million revenue gap, which would mean a rate increase of about 7 percent annually over the rate period; 2) keep rates flat but cut costs, reducing expenditures for fish and wildlife (F&W), conservation and renewables, incentive payments to generating partners and aggressively seeking relief from Enron contracts; 3) take greater risk with the Treasury payment probability; 4) push the problem out into the future using various financial mechanisms, including borrowing; and 5) remove the CRACs and set a fixed rate that would cover the risk, which would mean raising rates about 38 percent.

In short, we have tools to address this situation, but we’re asking what is the right balance, Leathley summed up. “These things are value judgments,” she said, “and we’re looking to you for input on the values and how to balance them.”

Clarifying Questions and Answers

Attorney **Paul Murphy, representing BPA’s direct service customers,** said only one approach incorporates cost control. That seems like the logical course any enterprise

would take when revenues start to sag, he commented. I've also been looking at the spot-market prices in various areas, and in the Northwest, prices are about half of what you see elsewhere, Murphy said, asking if BPA could explain the disparity.

"We absolutely are doing internal cost-cutting," Leathley responded. It's the first thing we're looking at, even with the rate-increase approach, she said. In the early summer, we saw the divergence between the Northwest and Southwest spot markets, Leathley continued. We have transmission to the Southwest, but this year, we have not been able to take advantage of it, she said. There is a lot less load now in the Northwest and in California, which is creating a supply and demand situation, Leathley added. We've also found some transmission constraints, and gas prices have been low – it seems like a combination of factors that have led to the low spot-market prices in the Northwest, she said.

What are BPA's preferences on the approaches? asked attorney **Dan Seligman, representing Canby Electric**. We have to bring our internal costs down, that's a given, Norman responded. As for the rest of this, "there aren't many givens," he said, adding that we are not going through the motions" in this process. "We are not enthused about kicking this can" further into the future, but we aren't ruling it out, Norman said. We also are not enthused about placing more risk on our Treasury payment, but nothing is being ruled out, he continued. The rate solution is not attractive either – none of the options is – but "we have a choice of evils here," Norman concluded.

Gil Hayes, a USWA member from The Dalles, asked if BPA is still getting a two-for-one exchange with California. No, that's gone away, Norman said.

Steve Weiss, Northwest Energy Coalition, said he had heard BPA is in even worse financial shape – by about \$100 million – than Norman's July 2 letter indicates. Leathley acknowledged that the calculations reflected in the letter were done in the spring, with the expectation that BPA would get better surplus prices in June, July and August. If we did the analysis today, we'd be up around a \$1 billion loss for the rate period, she said. We deliberately showed the wide range of uncertainty in our figure on page 6, Leathley explained. We know we'll be wrong – we'll be either better or worse off than we expect – and now, we're worse off, she added.

Ralph Bunnell, a BPA retiree from Portland, asked how much unretired debt BPA is carrying. The outstanding debt is about \$14 billion, Norman said.

Chuck Dawsey, manager of Benton REA, asked BPA about its program cuts. I'd like to know the amount and the details compared with last year's spending, he said. Norman said BPA has made about \$100 million in spending reductions this year, relative to planned spending. For the 2003 to 2006 period, we've reduced planned spending by about \$200 million, he added. We're spending a lot of time looking at how to cut costs further, and we know we have to go beyond what we've done so far, Norman indicated. I don't have a solid number yet, but that's part of this decision, he added. Where are you in actual expenses versus last year at this time? Dawsey asked. Norman outlined the four

major categories of BPA's operating expenses. We have lots of details available, and if you want to see those numbers, they are available, he said.

I was just reading the fish credits sidebar in your letter, commented **Jeff Hammarlund, a professor at Portland State University**. The power costs of the projects have gone up from 22 percent to 27 percent, he noted. Is there any flexibility there? Hammarlund asked. The Bureau of Reclamation (Bureau) reviewed its allocation for Grand Coulee and decided the allocation for power was too low, Norman explained. We looked at it closely, and believe the reallocation is difficult to argue with he responded.

Dennis Tucker, a member of the machinists' union from Ferndale, asked if BPA could implement approaches 2 and 3. We could, but if we miss a Treasury payment (approach 3) it puts us at risk of losing the whole federal system, Norman replied.

Nichole Cordan of Save Our Wild Salmon asked whether BPA could meet its legal ESA and tribal responsibilities if it cuts funding to F&W. A large percentage of the proposed cuts are from the F&W program, she observed. To the extent it's possible to achieve the Biological Opinion performance targets with less money, we wanted to leave open that possibility, Leathley said.

Open Dialogue

Referring to the "We Need Salmon" stickers some members of the audience were wearing, **Steve Eldridge, manager of Umatilla Electric Co-op**, said he too should have brought stickers. Mine would have said, "we need jobs and family wage jobs," he stated. I hope BPA will listen more closely to us this time than they did in the rate case, Eldridge said. BPA's decision to include in rates such a high level of salmon-recovery costs is "coming home to roost," he elaborated. Eldridge said BPA promised public power customers it could serve all entities without raising rates, but has not been able to do so. I'd now ask that you keep that promise, he urged.

With regard to F&W, Eldridge said studies have shown that flow augmentation and spill are not cost-effective measures. BPA should make more water available for power generation – don't wait 20 years to act on the science, he advised. Eldridge offered other pieces of specific advice, including: the Columbia Generating Station has to do better in reducing its costs; BPA should not prepay the Treasury unless the payments are an offset against future obligations; don't pay expenses with long-term debt – do everything reasonable to cut costs; and defer non-critical O&M. But make sure O&M cuts "pencil out" in the long run, he added. I would emphasize that you need to "reduce expenses to the bone," Eldridge stated. It won't solve your problem if you raise rates 10 percent and lose 20 percent of your load, he concluded.

Gil Hayes said the first priority for BPA should be making its Treasury payment, "or we won't have the long-term benefits of the system." He suggested BPA's revenue problem and lack of a market for spot power is due to the fact that the DSIs are shutting down. The aluminum companies were encouraged to come here in the 1930s, and now BPA is

not serving them, Hayes said. Golden Northwest is trying to get back into production by buying market-rate power from BPA and that would be a benefit to BPA's revenue situation, he indicated. Withholding that power and depriving BPA of that income is not good for the agency or the public, Hayes said. He urged BPA to sell the spot power to the aluminum producers to gain revenues and offset the projected October rate adjustment.

Chris Prevail, Alliance for Sustainable Jobs and the Environment, advocated approach #3. When the federal hydro system was built and the payback schedule was set, it wasn't possible to foresee what we would be facing today in terms of fish recovery and tribal responsibilities, she said. Prevail contended that the dams have led to genocide of Native Americans and now are leading to genocide of the fish. Here we are in the 21st century, and we are still not seriously addressing the salmon problem or showing respect for Native American people, she said. BPA is not a business, and with \$14 billion owing, it will never get its debt paid off, Prevail contended. The federal government should be responsible enough to see that BPA can't meet its payment – the people and the earth are a bigger concern than the payment, she added.

Fred Heutte of the Sierra Club said he hopes BPA will focus on the long term in solving its financial problems. The 46 percent rate increase BPA imposed is due to “out-of-control deregulation,” he stated. As a result of deregulation gone awry, “we had to bail out California last year,” Heutte said. Let's focus on protecting BPA's core responsibilities of F&W and conservation/renewables, he urged. Heutte said BPA shouldn't cut back in these areas and should look at conservation and renewables as part of a recovery strategy. BPA has already made staff cuts and making more will cut into its ability to manage in the future, he said. As for revenues, there is a distortion today in the West Coast power market that is causing BPA to lose millions of dollars; we need to talk to federal regulators about what's going on in the market, Heutte said. We also need to look at the DSI situation, where workers and communities have been hurt, he added. We should go to the federal government and tell them, we helped bail out California and now you should help us in this recession situation, Heutte concluded.

Our economy in The Dalles area is based on agriculture and primary metals, according to **Dwight Langer, manager of Northern Wasco PUD**. Our power rates went up 40.5 percent at a time when the area's largest employer is shut down, he pointed out, adding that another large company in the area burned to the ground this summer in a grass fire. In solving your financial problems, we are not asking BPA to do anything we will not do, Langer said. Our values should not change due to the financial situation, he said, adding that we should retain our high regard for customer service, cost-based rates, public stewardship and integrity. None of the five approaches BPA has outlined is the answer in its entirety, Langer said. It will take a combination of the following to weather the storm, he stated: continue to use the rate adjustment mechanisms that are in place; cut costs, but don't put accomplishments at risk; defer expenses that won't add to reliability or customer service; don't avoid #3 (increased risk to the Treasury) if necessary; and don't push the problem into the future. Number 5, a one-time adjustment to the safety net CRAC, is not warranted, Langer said.

Fergus Pilon, manager of Columbia River PUD, said BPA should get its costs back to where they were expected to be in the rate case. Your customers are in a bad competitive position, he said. Market rates are below BPA's rates, and our retail rates are no longer competitive, according to Pilon. "We are on the verge of a death spiral – raise rates, lose load, raise rates, lose load," he said. I support a combination of #2 and #4 – cut costs and push some of the problem out to the future, Pilon recommended. He acknowledged #4 is a short-term approach, but it gives the market a chance to rebound. I don't support borrowing to pay for operating expenses, Pilon added. I would like BPA to re-evaluate its river operations – there could be 330 MW available from rerating the river, he said. "The bottom line is, no rate increase in October," Pilon stated. "Tighten your belt, suck it up and stop talking rate increase," he concluded.

I don't mind paying a rate increase of \$1 to \$3 per month for salmon recovery, **Tom Atkins, Washington Sierra Club member from Vancouver**, said. Money is fleeting, but salmon are unique to this area, he said. Atkins pointed out that like hydropower, sportfishing contributes to the economy. He said he favors breaching the four Lower Snake River dams, and urged support for "the technologies of self sufficiency," including wind power and photovoltaics.

Jack Baker of Energy Northwest, urged the audience to remember that in talking about cuts in BPA's expenses, "you have to keep the electrons flowing." It's important to have reliable power sources, and last year, Columbia Generating Station produced 9,300 gigawatt-hours of power, he said. BPA's rate-case cost projections for the nuclear plant "were optimistic," Baker said. We are benchmarking our operations with our peers in the industry to make sure "we operate with the best of them," he stated. Refinancing the nuclear debt has saved money and helped BPA to pay off higher-interest Treasury debt, Baker pointed out. We've spread the debt into the future, he said, indicating that refinancing is saving millions of dollars annually. Other opportunities exist, including the use of variable-rate debt, Baker added. Last year, Energy Northwest came in \$5 million under budget, he said. We are constantly benchmarking our production and costs, and in September, when we finish the next round of benchmarks, we will get more ideas to you, Baker offered.

He urged BPA not to defer maintenance and return to unreliable operations. Energy Northwest needs to replace a \$35 million condenser at the nuclear plant, but believes it can defer the expense out of the rate period, Baker said. We also carefully manage our fuel supply, and we have among the lowest costs in the industry, he reported. We could defer \$40 million in fuel costs outside the period, Baker added.

Bob Wittenberg, manager of Skamania County PUD, said he did not understand the current power market, and "I question its sustainability." Energy production costs are greater than what would justify the present low prices, he indicated. "You need to make cuts to the bone," Wittenberg said. I've made cuts in O&M – it can be done, he stated, adding that the utility budgeted for a new bucket truck in 2000, but postponed the purchase, and "the old truck is still on the road." We haven't replaced three retirees –

we're doing what we can to cut costs, Wittenberg said. We have 11 percent unemployment in our service territory, and I have gotten letters from our customers who ask how they can both eat and pay their power bill, he explained. In a bad year, you don't do the things you might in a good year, Wittenberg said. Millions of people's livelihoods depend on your rates – get your costs down, he concluded.

Dennis Tucker voiced his support for approach #2, cost cutting. “Do more with less,” he urged. We know what it feels like to be shut down – if we shut down again, it may be the end, Tucker said. Cut your costs, he reiterated.

Andrew Englander of Save Our Wild Salmon (SOWS) pointed out that rates were set with the CRACs to address the financial situation BPA now faces. SOWS isn't inherently opposed to cuts, but without specifics about how the cuts would affect F&W, it's impossible to address the issue, he added. BPA's F&W program is based on legal responsibilities under the ESA, the Northwest Power Act, and treaties with Native American tribes, but salmon responsibilities go beyond the law, Englander continued. Salmon are a Northwest cultural icon and a national treasure, he said. Failure to save these endangered fish could put at risk the region's hydro system, Englander said. During the 2001 drought, BPA curtailed salmon restoration measures; now BPA is again proposing to lean on salmon to solve its problems, he said. BPA's record on salmon recovery “is woefully inadequate,” Englander contended. We can and must find the right balance to address BPA's financial problem, he said.

We set up the current situation in the rate case, according to **Steve Weiss of the Northwest Energy Coalition**. We set rates too low, made optimistic forecasts and set a Treasury payment probability of over 80 percent, “and now here we are,” he said. This should not be seen as a crisis, but as a “predictable” outcome, Weiss indicated. The question now is whether we are going to make cuts that will cost us more in the future, he said. Conservation and renewables are the solution, not the cause of the problem – with more conservation, we would not have had to buy so much power in the market, Weiss pointed out. He referred to a recent study that showed a sustained investment in conservation could save the region more than “the roller-coaster” cycle of investment that has taken place in the past. Cutting conservation is not the way to go, Weiss stated. A Rand Corporation study that is coming out at the end of the month looks at jobs and concludes that these investments build jobs in the Northwest, he continued. Cutting investment in clean energy is not prudent, Weiss stated. We endorse SOWS position on salmon, he stated.

We propose a combination of approaches 1, 2 and 4, Weiss said. Don't cut positions you'll have to replace later, he urged. As for the cuts in F&W, “you threw out a number” without providing any detail – we can't judge the number without more details, Weiss added. He urged BPA to borrow money and not try to solve a four-year problem in one year. Borrow some money, hope things get better and implement a small rate increase, Weiss recommended. “Spread the pain,” but do not hurt the values we hold in the Northwest, he concluded.

Due to BPA's rate increase, our power costs increased 66 percent, **Chuck Dawsey** said. We asked our members to contact BPA directly about how the increase is affecting them, he said. Dawsey said the co-op's members can't attend meetings that are a six-hour roundtrip drive, so he was appearing on their behalf to present BPA with 2,100 letters they had written. The message from our members is that rates must go down, he stated. Between now and October 2005, BPA rates should go down to a PF rate of 24 mills, Dawsey urged. We support the cuts outlined in the Northwest Requirements Utilities' (NRU) comments, he added. Ratepayers are not an unlimited source of revenue for BPA programs: rates have to come down and the level is 24 mills, Dawsey summed up.

Nancy Newell, a member of the Oregon Wildlife Federation from Portland, said she didn't see adequate representation for conservation and renewables at the meeting; she urged BPA to eliminate its "nuclear department." Newell said "the Northwest has been duped" by companies like Enron, adding that a Japanese company now wants to build a nuclear plant in Washington state. She cited global warming as another major problem and challenged people at the meeting to educate others about the threat. "I'm tired of coming to these meetings where there is no will or vision," Newell said. Until people show the will to make major changes, nothing will happen, she stated.

We are in a crisis, **Paul Murphy** stated. The Northwest has the highest unemployment rate in the country, he pointed out. Not everyone has a job, and some communities have been hurt more than others, Murphy said. Last year, we had the second-worst water conditions ever, and BPA took steps to constrain demand, he explained. This year that demand constraint is having an effect and eroding revenues, Murphy said. You need to get demand back up, he urged, adding that in the 1990s, BPA put in place mechanisms that helped create and sustain demand. I'm not suggesting that you not cut costs – "cut to the bone, you are in crisis," Murphy advised. But the best solution is creative mechanisms to sell more power – it will help you, it will help the region and it will increase employment, he added. You need to do something "to help industry get back on its feet," and that will help you as well, Murphy wrapped up.

This is not the first time BPA has had a financial crisis, according to **Rachel Shimshak, director of the Renewable Northwest Project.** If part of the problem is exposure and volatility in the power market, address it with conservation and renewable strategies, she advised. Over the past three years, BPA has been a leader on renewables – you've developed wind projects, solved transmission issues and created a market for green power, Shimshak said. BPA has stimulated six new renewable projects in the region, and those projects have benefited rural counties, as well as farmers, who are paid for the land where the wind turbines are located, she explained. Funding for these programs "are a tiny part" of BPA's budget, and by cutting them, you won't solve your money problem, but "you will cripple the market" for conservation and renewables, Shimshak stated. Stick with the values of a diverse system with stable prices, public responsibilities, clean air and quality of life, she urged.

Aluminum worker Brad Lynch of The Dalles encouraged BPA to dump all of its Enron contracts. He said that as a sport fisherman, he too values salmon, but only the

choicest fish are marketable for humans, and 20 to 60 percent go for cat food. What are the economics of that? Lynch asked. We have terminated some of our Enron contracts, and we've asked the Federal Energy Regulatory Commission (FERC) to rescind others, Norman responded. We have not gotten an answer yet, but we intend to press that – it would solve \$200 million of our \$800 million problem, he said. Weiss pointed out that there is almost no commercial fishing for Columbia and Snake river salmon stocks.

NRU director John Saven said the problems BPA is facing were contemplated in the rate case and mechanisms were provided to address them. The agency is taking the combination of a short-term market problem and its own cost increases and “moving it into a multiyear package,” he observed. The cost increases at the agency are substantially over those contemplated in the rate case – I do not think there has been cutting to the bone, Saven stated. As for the flow of funds, I can't think of any circumstances under which BPA should prepay the Treasury – “I see absolutely no rationale for that,” he said.

There are financial mechanisms that would be prudent to pursue under the circumstances, Saven said. We aren't vigorously going after F&W cuts, but we want to look at flow and spill, he added. The science says they can be cut without doing harm to fish, according to Saven. You can put together a package that won't result in a rate increase, he told BPA.

Tom Wolf of Trout Unlimited urged that any spending cuts not affect salmon recovery or conservation/renewables. Don't forget about the economics of the fishing industry – the recreational fishery brings \$1 billion annually into the Northwest, he said. Don't panic about the economy, Wolf advised. Things will get better – don't sacrifice fish or renewables by panicking, he stated.

Liz Frenkel of Corvallis said she is concerned about the long-term viability of BPA. Many of us in the region want to keep BPA viable because of the public purposes it serves, including F&W, conservation and renewables, and low-income energy assistance, she said. When you consider cuts, you look at the things that are easiest to cut – not at things like the transmission budget, “but at little programs,” Frankel observed. If you cut staff, you won't have the capability to go on with your obligations for stewardship once the crisis is over, she said. How you treat the public purposes will be long remembered by the members of the public who are your supporters, Frankel stated.

We discovered at Emerald PUD that the vast majority of ratepayers supported the public purposes and were less concerned about rates, according to **Doug Still, a CUB and NWEA member from Cottage Grove**. People want efficiency and reliability in the power system, and they want the public purposes, he said. Treasury payment is the number one priority, he said. Cuts can be made, but keep the long-term vision in mind, and do not underfund the development of conservation and renewables, Still concluded.

Fish have adapted to a river with dams and runoff from fertilizer, **Wittenberg** said. We've had record-setting fish runs in recent years, he pointed out. “Use common sense in fish funding,” and when you spend on conservation, don't spend on resources that

don't have a fast payback, Wittenberg urged. "Wait until you're rich – the planet will survive," he said.

Kay Moxness of Central Lincoln PUD said splitting BPA into two units, transmission and power, has made for more expense and difficulty in planning. I hope any benefits that come from refinancing debt will go to PBL and not be split with TBL, she said.

Sierra Club member Carl Schnoor pointed out that low rates for energy have historically "been extremely destructive." Homes were built without insulation and with single-pane windows, he said. Schnoor said the economy in this country is badly skewed. I don't think it's BPA's job to have rates that every poor person can afford, he said. The problem is with the way the economy is structured, Schnoor stated.

In the rate case, we handled risk with the CRACs, according to **Keith Knitter of Grant County PUD**. But the CRACs were not set up "as a blank check," he added. Now, looking at BPA's costs compared to those forecast in the rate case, it looks like that is how BPA is using them, Knitter said. I'd urge you to get back to the rate-case level costs, he stated.

Pat Kearney of Georgia Pacific said his company "is trying to stay out of that death spiral." We have 43 fewer employees at my location than we had a year ago, he said. It is possible to make cuts, Kearney stated.

Closing

"This is exactly what we wanted," Norman said of the meeting. I've heard things I didn't expect, he added. A common theme I heard is, where BPA has the opportunity to reduce costs without affecting its fundamental mission, do so aggressively, Norman summed up.

Is there an accountability system for F&W recovery dollars? Hayes asked. With the Biological Opinion and the Northwest Power Planning Council's F&W program, there is an accountability system, **Alex Smith of BPA** responded. We have an implementation plan and we have just issued a progress report, she said. There are three, five and eight-year check-ins on the Biological Opinion, "so we are tremendously accountable now," Smith added.

The comment deadline for this process is September 30, Norman reminded the participants. We will be making decisions on these choices in November or December, he said.

The meeting adjourned at 4 p.m.

Bonneville Power Administration Headquarters, 6 - 9 p.m.
Approximate Attendance: 90

Hugh Moore welcomed participants, Paul Norman explained BPA's financial situation, and Kim Leathley laid out the approaches BPA has developed as potential ways to address an \$860 million revenue shortfall. [See the introduction above.]

Clarifying Questions and Answers

Scott Bowmer of Portland commented that last year's energy crisis was largely due to the situation in California. Are there ways to impose a surcharge on the power BPA is selling now to California? he asked. As gratifying as it would be, we don't see a way to do it, Norman responded. There are entities in California that owe us \$60 million for power they haven't paid for, and we are going after that money aggressively, he added.

Ralph Bunnell, retired BPA employee from Portland, noted that in the past, BPA overbuilt its transmission system in anticipation of growth. He asked if the sales BPA wheels for others across its transmission lines are cost-effective given the O&M required to maintain the lines. BPA's business is divided into two entities, explained **Alan Burns (BPA)**. TBL sets its own rates, and "they aren't losing money," he said. We haven't built any major transmission in 10 years, and now the system is underbuilt – we need to add to it, Burns said. Bunnell said he is concerned about BPA having adequate revenue to repay debt, provide O&M for the existing system and construct to meet growth and maintain reliability. BPA is supposed to deliver power at cost, he added. Burns replied that BPA is covering its costs for the things Bunnell mentioned. Building adequate infrastructure to keep the lights on is very important too, and we are trying to finance additions to the transmission system – we try to have a long-term outlook, he said.

Tom Marlin of Portland commented that Portland is becoming too crowded and being rapidly overbuilt. Are you keeping up with the demand and the load that is coming on? he asked. Our financial plan was based on taking the surplus power in the system and selling it into the market, Norman explained. One of the problems driving our financial problem is that we are not able to sell the power for as much as we anticipated, he said. Despite what's happening with growth in Portland, there has been a decrease in load in the region, primarily because the aluminum plants are dropping off the system, Norman said. There is actually excess power in the region now, he stated. But in the long run, the question is whether we will have enough conservation, renewable development and conventional generating resources to meet demand – "it's not a slam dunk," Norman said.

Jeff Gottfried of the Native Fish Society asked how much money would go for salmon recovery under each of the approaches. Under #1, salmon spending would stay the same at \$550 million per year, according to **Greg Delwiche (BPA)**. With #2, we'd be looking at whether the region could achieve ESA and other F&W objectives with a 5-10 percent decrease in F&W spending, he said. If so, spending could go down as much as \$200

million over the remainder of the rate period, Delwiche added. Under #3 and #4, spending for salmon would remain the same, he said.

What are the consequences of not paying Treasury? asked **Carol Halvorson of Portland**. It's like paying for a house – if you pay the mortgage, you get the benefits, Norman responded. If you don't pay the mortgage, the bank can repossess, and that could happen, he said. There are a lot of people outside this region who are not happy about what they think we get in this corner of the country with our relatively low power rates from the federal hydro system, Norman explained. Not paying the Treasury creates a risk that we could lose those benefits, he said.

We made a commitment last year to work with BPA to try to resolve the financial problems, **Brad Witt of Oregon AFL-CIO** said. As a result of what happened in 2001, we lost 6,000 jobs, he said. To BPA's credit, it tried to mitigate the losses while workers were out of work, Witt added. The partnership between the workers and BPA was a good one, and I'd like to offer to continue to work with BPA to get through this, he said. Tonight you've listed five approaches, but we weren't involved in developing these options, Witt pointed out. We would like to be included in future discussions of developing the options, he stated.

Lyell Asher, member of Save Our Wild Salmon (SOWS) and the Sierra Club, asked what percent of the funds for salmon recovery go to barging. The \$550 million spent for salmon falls into several categories, Delwiche explained: about \$300 million is associated with actions on the river to manage water; over \$100 million goes for the Northwest Power Planning Council's F&W program; and the remainder goes for capital improvements, which includes screens, bypass systems and barging. Barging is relatively inexpensive, with an annual cost of about \$10 million, he said.

In response to a question from **David Roth of Portland**, Delwiche clarified that BPA's current F&W spending is \$550 million, and the plan in the rate case was to increase spending by \$100 million over the five-year rate period.

We see BPA's responsibility to salmon and conservation/renewables as equally important to its responsibility for power, according to **Liz Hamilton of the Northwest Sportfishing Industry Association**. We have to have a vision that we can present to people – we need to let them know if they pay more, they will get more, she said. People will be willing to pay more if they see a better future, Hamilton said, adding that is a much brighter vision than “the doom and gloom” in which BPA is presenting its financial situation. Are you planning to meet the costs of implementing the Biological Opinion? she asked. Yes, Delwiche replied. We are planning to recover the endangered species and meet the Northwest Power Act obligations, he said. We don't see \$200 million doing that, Hamilton contended. We want to hear from you about whether our F&W goals can be met if there are cost reductions, Delwiche responded.

Ken Hall, former chairman of the Umatilla Tribe and a commissioner to the Columbia River Inter-Tribal Fish Commission (CRITFC), asked about BPA's

internal cost-saving measures. We have already decided on some, and we are looking at others, Norman responded. We've knocked \$100 million out of our costs this year, and we need to do more, he said. We need advice on the value issues that guide how we spend money, Norman added. He offered to provide detail about where BPA has already decided to reduce costs.

We heard earlier that you are spending above the amounts you anticipated in the rate case for some budget items, **Nichole Cordan of SOWS** stated. We want to know if this is true, she said. You are spending within the rate case budget on F&W items, Cordan observed. Are you cutting in those areas where your spending is outside the rate case limits? she asked. We based our rate case spending for F&W on a range of 13 alternatives, and we are operating within that range, Leathley replied. Among other things, we made cuts in our Corps of Engineers (Corps) and Bureau costs, she said. With the #2 approach, we would eliminate future spending on conservation and renewables, Leathley added.

Open Dialogue

Don Sampson, director of CRITFC, said the tribes were assured from 1998 to 2000 that BPA would fully fund its F&W efforts, even if it meant missing a Treasury payment. In 2000 and early 2001, the Bush Administration promised an aggressive program to restore salmon without breaching dams, he said. BPA cut its F&W program in 2001 to make its Treasury payment and now it wants more, Sampson stated. CRITFC supports using the Safety-Net and Financial-Based CRACs, he said. These were put in place after lengthy proceedings, and BPA should adhere to the rate case decision, Sampson urged.

Don't cut the F&W program, he said. The \$186 million in the Council's F&W program won't meet the ESA and Biological Opinion requirements; we project it would take closer to \$240 million, Sampson stated. We will work with you to find efficiencies in F&W funding and think greater efficiency could be achieved by reducing "the red tape" and redundant scientific reviews we have to go through for project selection, he said. We would also offer to assist BPA in going to the Treasury and others to extend the debt and provide more financial cushion, Sampson said. He said CRITFC would support increases to BPA's capital borrowing authority for F&W projects. The U.S. government has an obligation to the treaty tribes, and we deserve a government-to-government meeting with BPA Administrator Steve Wright on this issue, Sampson concluded.

Barbara Frederick, League of Women Voters, said the league supports long-term regional planning. Defaulting on a Treasury payment is contrary to the interests of the region and exposes us to "political mischief," she said. The public interest programs suffer disproportionately in budget cuts, Frederick said. Conservation and renewable investments help reduce spikes in demand, and wind power is a promising new resource, she commented. The league believes that raising rates is the most defensible course under the Northwest Power Act and the most likely to protect the region's long-term planning ability, Frederick reported. The CRACs were designed to deal with these issues

– long-term stability and viability of BPA will be best served with this option, she concluded.

Karen Williams of Portland said many employees of the Environmental Protection Agency dedicate their careers to protecting water quality that in turn protects F&W. Don't cut the funding to F&W programs, she urged. These investments take time to pay off, but if they are cut now, nothing will come of the efforts that have already been made, Williams indicated. Local entities, such as watershed groups, have relied on BPA funding and grants to do their work, she said. I would remind BPA that treating salmon equally with power is the law, Williams stated. Conservation and renewables are not the problem, they are part of the solution, she concluded.

Sonja Ling of the Renewable Northwest Project referred to Rachel Shimshak's remarks at the meeting earlier in the day. Renewable resources are a hedge against fuel-cost instability, she said. There are economic benefits to the region in the development of wind power, Ling said, citing statistics on the number of construction jobs created and the "cash crop" that is created for farmers, who are paid \$1,500 to \$2,500 per year for each turbine that sits on their land. Wind projects also create property tax revenues for rural counties, she pointed out. BPA should continue to fund new renewable development, Ling concluded.

We advocate that BPA keep stable funding levels for conservation and renewables, stated **Steve Abeling of the Metro Alliance for Common Good**. The costs for the Columbia Generating Station are now over \$26 per MW, yet BPA can't meet a projected sales price of \$20 per MW in the market, he pointed out. Your future long-term strategy should be to increase the supply of conservation and renewable resources so the nuclear plant will no longer be needed, Abeling advised. You would save money, he said.

Geoff Carr of the Northwest Requirements Utilities (NRU) pointed out that his members are the ones facing the rate increases people are advocating. They have already seen a 43 percent rate increase and now are facing what could be 14 to 38 percent more, he said. The Northwest has the highest unemployment rate in the country, and "folks are hurting," Carr stated. We propose working with BPA, the Corps, Bureau and Energy Northwest to cut costs – we'd propose cuts of about \$300 million in spending, he said. The Columbia Generating Station represents the highest single increase in BPA's budget, and we need to take a hard look at those costs, Carr stated. BPA's corporate overhead is also going up, he added. We need to look at the economic impact of flow and spill, Carr said. We don't want to see cuts in conservation and renewables, but we'd like to see cutbacks in the increased spending for these items, he recommended. In addition, Carr called on BPA to stop making prepayments to the Treasury and to defer non-critical O&M.

A member of the audience asked about the impacts of wind generators to bird populations. Ling responded that developers "have become more savvy" about site design and turbine placement. Biologists are working with developers to site turbines properly and mitigate impacts to birds, she said.

David Bean, a member of Wild Salmon Nation, said BPA is a regional power and must be resilient to endure. The agency “was snookered by Enron,” as were others, and now must figure out where to get more money, he said: from the fish, the future or from ratepayers. Bean drew a connection between the state of the region’s “sick forests” and the lack of salmon in the rivers. He suggested that companies that make big profits barging cargo up and down the river pay a surcharge for the water used at the locks.

Glyn Thomas of Portland commented that BPA should maintain its commitment to salmon restoration and to renewables and conservation. Stay with those, he advised. Among the options presented, BPA could solve its problem with minimal rate increases, cost cutting and use of financial tools, Thomas stated.

Scott Bowmer said BPA needs to work on its risk management analysis. We had two extreme years, with low water and high costs, he pointed out, suggesting the situation was far out of the ordinary. Bowmer said although he is a Republican and has relatives who farm in Idaho, he believes the region should consider tearing down the four Lower Snake River dams. Recreation is big business too, he stated. Bowmer questioned why BPA is still meeting its contractual obligations to Enron, when the company “was way out of line.” California is responsible for BPA’s financial problem, and “it was two Democratic Senators and a Democratic governor who let it happen,” he contended. That doesn’t make them good stewards, Bowmer added. We need to raise rates – we have to, he summed up.

Dr. Christine Perala of WaterCycle Inc., said she teaches watershed management courses. Abandoning programs that protect F&W is an unacceptable alternative – “trading away fish stocks to pay the Treasury” is not acceptable, she stated. There should be more emphasis on demand management, Perala said. BPA should stand firm on environmental protection and supporting sustainable jobs, she stated. We need increased regulation of energy markets to prevent a repeat of the 2001 disaster, Perala concluded.

Don’t cut \$1 of F&W funding, advised **Sam Mace of Trout Unlimited**. Such cuts “should not even be on the table” when we aren’t meeting our legal obligations, he said. Studies show that removing the Snake River dams would give “the biggest bang for the buck,” Mace added. He said he had been in Spokane before coming to Portland, and the majority of people in Spokane care a great deal about the region’s salmon resources. Salmon mean money too, Mace added. We feel for people who suffer from the rate increases, but “salmon can’t keep paying the price,” he stated. We need to start looking at “the real cost of power” – there are ramifications in the real world and in the salmon world, he said. Citizens are willing to pay extra to save the fish – I hope salmon aren’t sacrificed once again, Mace summed up.

Approach #3 is “a non-starter,” according to **Brad Witt**. It would only invite mischief – “do what you have to do to avoid deferring a Treasury payment,” he said. Number 5, raising firm rates, is also a non-starter – we’re beyond that, Witt said. That leaves 1, 2 and 4 – as you look for the right combination there, I’d urge BPA to find a sustainable

solution – in your search, don't push any species over the brink or we'll all lose, he advised. Consider wind power and conservation, Witt said.

Ken Hall said he was disappointed Steve Wright was not at the meeting. He pointed out that there is much inconsistency in the region's processes. We spend too much time reacting to the processes, Hall said. The independent science reviews required for project selection cause F&W managers to spend their time reacting to comments, rather than getting work done on the ground, he said. We have local watershed councils working to restore salmon in the subbasins, and Hall urged BPA not to disrupt the funding for this activity. He asked BPA to address the inconsistency that exists among the various agencies that back F&W efforts. "Let's get the dollars back on the ground," Hall concluded.

Jeff Fryer, a Sierra Club member, said a lot of the financial problem is due to poor planning on BPA's part. Selling more power than you have "is bad policy," he stated, and BPA should reconsider its actions. Regardless of the circumstances, fish suffer, Fryer pointed out. When there is not much water, we cut the salmon measures, and when there is a lot of water, salmon also suffer, he said. There is an obligation to the tribes and in the Biological Opinion to do more for salmon, Fryer stated. We are talking about a 5 to 10 percent cut to F&W, but why don't the bargers and irrigators take a 5 to 10 percent cut? he asked. We're looking the wrong way in making salmon "the fall guys" for this problem, according to Fryer.

Shara Alexander of Portland commented on demand management. As a landscaper, I see a lot of neighborhoods, and I've observed how the tree cover around our houses is shrinking while the number of air conditioners is rising, she stated. There has got to be more demand management to curb this behavior, Alexander suggested. We can do much more with conservation, she added.

Tom Marlin pointed out that there are adequate fish this year, so he was able to go sport fishing for the first time in many years. There are many things that contribute to the degradation of fish habitat throughout the basin, he pointed out: tributary dams, dredge mining and agriculture, among them. If these problems were addressed, the region would not be losing \$13 billion annually on the sportfishing industry, Marlin suggested.

BPA dams are responsible for salmonid decline so BPA should be held responsible for salmon restoration and getting salmon off the ESA list, according to **Jason DeSanto of Portland.** The price of electricity does not have to be a contributor to the demise of salmon, he said. A rate increase of \$1 to \$3 a month is not much to pay to save salmon, DeSanto added. PGE recently offered a salmon restoration rate, through which you can opt in to pay more for salmon recovery, he explained. The program should be set up so people have to indicate if they want to opt out, with the default being that people are in, DeSanto suggested.

David Roth pointed out that after talking to Geoff Carr, he learned that small, full requirements customers of BPA, not PGE customers in Portland, would be carrying the

load of the rate increases being advocated. We have so far ignored the sensible practice of borrowing to do something you can't pay for with current revenues, he said. The New Deal created BPA, Roth said. Why have we allowed the anti-tax interests in this country to convince us we can't finance an additional \$200 million in expenses when times are bad? he asked.

BPA has three customer groups, Carr responded: the aluminum companies, which are largely shut down; the investor-owned utilities that serve about 60 percent of consumers in the region; and the publicly owned utilities that serve about 40 percent. A BPA rate increase has different impacts on different customers, Carr explained. PacifiCorp and PGE are much less affected by a BPA rate increase – our members are paying for benefits that go to PGE and PacifiCorp because of the deal struck to settle the rate case, he said.

Jack Baker of Energy Northwest said the Columbia Generating Station operated during the drought of 2001 and saved the region about \$1 billion in purchased power costs. He cautioned against making cost cuts that would keep generators from providing a reliable power supply. At the nuclear station, we can defer \$35 million in equipment costs outside the rate period, and we can defer some fuel costs and capital additions, Baker said. If you look too hard at cutting costs, the region will pay in terms of reliability, he said. Our costs are running over the rate case amount, but Energy Northwest didn't come up with that number, Baker explained. And we are trying to mitigate, he added. Through BPA's incentive payment program, we are developing wind power and renewables, Baker stated.

Steve Weiss questioned whether the small utilities NRU represents would be facing such high rate increases. It seems like it would be more like 6 percent, he said. BPA has been underrunning conservation and F&W budgets, but other costs, including administrative costs, are way over budget, he pointed out. Our proposal is to cut about \$100 million in costs, look at short-term borrowing and impose a small rate increase of about 3 percent, Weiss said. Fish spending is "a moral and legal imperative," he stated. Don't cut it, Weiss urged.

Tammy Mackey, a fish biologist and member of Trout Unlimited, said she wanted to speak on behalf of the fish that couldn't be at the meeting. Don't cut the fish programs – they have improved habitat and passage, she stated. The fish would find that the \$1 to \$3 per month in increased rates is a small price to pay to keep runs healthy, Mackey added.

BPA should keep funding conservation and renewables and enhance that funding, **Lloyd Marbett of Boring** stated. Marbett read a poem he had written after talking to a fisherman about the perils fish face in the Columbia River system, and he read an excerpt from a book by David James Duncan in which Duncan states that "our generation is presiding over an environmental holocaust."

Ike McCarley, a Sierra Club member from Beaverton, said he supports salmon restoration. He observed that elderly people who lived through the Depression are good about cutting back on energy use when rates get too high. When you raise rates too

much, there's a point of no return, McCarley said. He counseled BPA to consider where the crossover is on savings versus revenue. A rate increase may actually give you less revenue, McCarley stated.

There is a \$3 billion sport fishing industry in the Northwest, **Liz Hamilton** said. In the 1990s, we lost 10,000 jobs, she pointed out. For too long, we've made choices that hamper salmon recovery, Hamilton stated. She urged BPA to use a combination of cost cuts, financial mechanisms and rate increases to solve its problem, and she asked for more specificity about the cost cuts BPA would propose. We feel like we are on a "yo-yo" – with too much water, then not enough, and too much power, then too little, Hamilton observed. "You have a credibility crisis," she told BPA, and people don't know whom to trust on these issues any more. Why should salmon pay for the high-cost energy contracts? she asked. I'd like to see us move into an era where we have more vision for the long term; BPA is in the position to be a leader for salmon, Hamilton indicated. We haven't met the salmon needs, and we must start with salmon, she said. BPA does not own the river, Hamilton added. We think you can solve your financial problem without cutting fish costs, she stated. The Northwest can't pass "the red face test" with the rest of the nation, if we say we can't save salmon even with the lowest power rates in the nation, Hamilton concluded.

Closing

We've gotten clear messages from your input, Norman said: among them, continue the commitment to conservation and renewables. It's a high value program and worth paying for in rate increases, he said. What you said, how you said it and your willingness to spend an evening with us makes an impact, Norman concluded.

The meeting adjourned at 9 p.m.