

Bonneville Power Administration Financial Choices Public Meetings

**Seattle, Washington
August 20, 2002**

**Hilton Airport Hotel, 1-4 p.m.
Approximate Attendance: 65**

Opening Remarks

Facilitator Hugh Moore (BPA) welcomed participants and explained the meeting format. **Paul Norman (BPA)** provided background on BPA's financial situation, and **Kim Leathley (BPA)** laid out the approaches BPA has developed as potential ways to address an \$860 million revenue shortfall. The approaches she described are: #1, raise rates to close the gap between revenue and expenses; #2, cut costs and increase efficiencies; #3, increase financial risk to the Treasury; #4, defer costs and push the problem to the future; and #5, make a one-time rate adjustment through the safety-net surcharge. (A complete summary of the introduction is provided for the first meeting in Portland on August 15. The same points were covered in the introduction at all of the public meetings.)

Clarifying Questions and Answers

Hugh Diehl, an Alcoa employee from Bellingham, Washington, asked BPA about its commitment to jobs and rural areas. Norman said BPA is aware that the nearly 50 percent rate increase last fall has had a huge impact on rural economies, noting that he has visited rural communities and heard stories of hardship. We understand clearly that our rates have an impact on the economic viability of small communities, he said. But, Norman added, we have not yet decided what to do.

Pete Richardson, Idaho Energy Authority, Inc. in Eagle, Idaho, asked about the reductions contemplated in BPA's approach #2. Leathley responded that the approach encompasses expense reductions of \$400 million, of which \$200 million are related to a dispute between BPA's public and private utility customers. If the dispute is resolved, we would be able to decrease expenses by that \$200 million, in addition to other cuts, she indicated.

Fred Voltz of Carlsborg, Washington, pointed out that with the cost reductions BPA committed to five years ago after the Cost Review Committee was convened, the agency should already have been on track to reduce expenses \$146 million per year over the rate period for a total of \$730 million. Norman explained that BPA used the numbers from the cost review in its rate case, numbers that represented significant cuts. BPA costs are tracking \$570 million in total above those rate case estimates for 2003-2006.

Half of the problem is overspending within BPA, **Kevin Clark of Seattle City Light** said. What is the cost-management philosophy at BPA? he asked. Do you hold the managers to the rate case levels? Clark asked. Our practice has been to keep costs as low as we can and get the mission done, Norman responded. We know we need to look at our costs, he added. We have a challenge to control costs and are working to do that – we're not done with cost reductions, Norman stated. What level of control are managers held to? Clark asked. Every year, we look at the demands on the organization, Norman replied. For example, we restored conservation programs and ramped up spending in that area because we saw a serious need, he said.

Darcie Johnson of Seattle asked who was consulted when BPA asked around the region to come up with its approaches. Leathley said the approaches were distilled from discussions BPA Administrator Steve Wright has had around the region with various groups and individuals, from power customers to fish and wildlife (F&W) interests to the Northwest's Congressional delegation. The five approaches illustrate the stark differences of opinion, she added.

Chuck Dawsey of Benton Rural Electric Association (REA) pointed out that public power viewed as "excessive" BPA's commitment to pay investor-owned utilities a total of \$200 million during the rate period if there were lawsuits over Subscription. He asked BPA to explain why it has exceeded its controllable expenses by \$80 million to \$100 million over the levels established in the rate case. Norman said the numbers he has looked at for expenses show the agency is right about at rate case levels, but for the next four years, "there is a big problem."

Do we know what the amount of the shortfall really is? asked **John White of Snohomish County PUD**. Leathley acknowledged that market prices have eroded further since the calculations presented in Norman's July letter were made. The number is now closer to \$1 billion, she said.

Joseph Bogaard of Save Our Wild Salmon (SOWS) said he is not aware of anyone in the SOWS coalition who was consulted when the approaches were developed. He asked BPA about cost cutting and increased efficiencies that might be targeted for F&W. What are the legal implications for the federal salmon recovery plan of making cuts? Bogaard asked. Leathley said there was not a formal process to gather opinion for the approaches, but rather, they were the result of discussions with various groups, as well as informal conversations. Approach #2 assumes we could get a 5 to 10 percent increase in efficiency from the F&W program, she continued. Embedded in that is a plan to meet our legal obligations with regard to the ESA and the Northwest Power Act, Leathley added. A 5 to 10 percent reduction equates to \$50 million per year in direct and indirect costs, she said. We don't know if it's possible to meet the laws with these increased efficiencies, but we are asking for input, Leathley indicated.

When you compare the costs to those set in the rate case, F&W and conservation are underrunning their budgets, **Shawn Cantrell, Friends of the Earth**, pointed out. If you

make cuts, would you be underspending these amounts by even more? he asked. You are right that the F&W program costs are not above what was anticipated in the rate case, Leathley responded. Our conservation and renewable costs are greater than anticipated, but there are offsets in terms of the power costs that are avoided, she explained.

How long have your spending reductions been in effect and are they measurable? asked **Jerry Lentz, an Alcoa employee from Bellingham**. The direct service industries (DSIs) have been experiencing cost reductions of 30 percent in order to remain competitive, he pointed out. Are you anywhere close to that? he asked. The best number I have for this year is that we have reduced expenses by \$100 million compared to the budgeted amounts, Norman said.

What likelihood is there of the financial-based surcharge triggering this year? **John White** asked. We will have a workshop September 4, when we'll announce our expectation about the cost recovery adjustment clauses (CRACs), **Allen Burns (BPA)** responded. "It's almost a certainty" we will have an 11 percent financial-based CRAC and a 33 percent load-based CRAC, a total of 44 percent, compared with 46 percent last year, he said.

Eric Hausmann, University of Washington, asked why, with more demand and higher prices for power, BPA is expecting a revenue shortfall. We thought we could meet an additional 1,700 average megawatts (MWA) above federal resources at \$28 per megawatt hour (MWh), Leathley responded. At the time we made those projections, market prices were starting to go up, and when we signed contracts, more customers came back to the BPA system, she said. So we have 1,300 MWA more load than we expected, according to Leathley. We had to secure resources to meet that load at much higher prices than normal, she explained. We also thought at that time that we could sell our surplus power at much higher prices than we find we are able to get, Leathley added.

With regard to the additional load, Burns described it as "a classic chicken and egg" situation. We asked customers how much power they wanted from BPA, and they wanted to know what our rate would be before they committed, he explained. We set our rates assuming a certain amount of load, but the market went up dramatically, and more people came to us with load than we anticipated, Burns said. We ended up augmenting our supply at just under \$40 per MWh, he stated.

Cantrell asked about the results of Energy Northwest's benchmarking for the Columbia Generating Station. **Jerry Kucera of Energy Northwest** said benchmarking studies are in process, and "it appears at this time we are not out of line" with comparable nuclear plants. We will have the results of another study in three months, he added.

Open Dialogue

Norman reminded the participants that BPA would be listening intently to their comments, but would not be responding unless there were specific questions.

“I’m aghast at the cost overruns,” said **Hugh Diehl**. We depend on BPA for low-cost power to support the 600 family-wage jobs at Alcoa, “but the way BPA is going, our jobs will be going overseas,” he said. Diehl said his family has dreams for the future, but right now, “my dream is to keep my job.” You put us into curtailment last year, and now you want us to get off the grid entirely, he said. Diehl said that while people want to save the salmon, “we want to save our jobs.” Part of the problem is due to BPA mismanagement, he stated, urging BPA to halt the cost overruns.

Rate increases are hard on everyone, but the region has gotten into this problem together, according to **Sara Patton of the Northwest Energy Coalition**. Many utilities and aluminum smelters told BPA not to plan to serve them in the future – they said, we’re going to the market for cheap power, she stated. So BPA quit developing resources for that load and now is being asked to meet 3,000 MW over what the system can provide, Patton said. It is ironic we are wearing buttons that have the bill number of conservation legislation that never passed in Washington, Patton said, referring to the “CARE” buttons she and other members of the audience sported. The utilities said they would “pick up the slack” if BPA cut back on spending for conservation, but they did not, she contended, noting that other Northwest states have passed laws requiring utilities to meet a certain level of investment in conservation. BPA is getting back on track with conservation and with meeting its legal obligations for salmon, Patton said. We probably will have to have a small rate increase to pay for some important and necessary things, she said. But we are in this together; BPA is trying to meet many purposes, Patton summed up.

Stan Price of the Northwest Energy Efficiency Council spoke in favor of consistent and stable funding for energy efficiency. The region has accomplished less than it could have with energy efficiency because of the ramping up and down of investments, he said. We appreciate Steve Wright’s call for stable funding for energy efficiency, Price said, adding that if it were not for efforts that had already taken place in the region, “we would have been worse off” in 2000 and 2001, when power prices spiked. He asked BPA to consider the following: maintain a commitment to energy efficiency – it mutes the effects of a rate increase; maintain the commitment to F&W funding; any reduction in these programs should be modest and temporary; cut internal costs; and explore tools to mitigate the financial situation. Energy efficiency is the lowest-cost resource available, Price stated, adding that the region has an experienced industry in this field that needs to be retained. Maintain a reasonable commitment to energy efficiency, he urged.

Bob Cowan of the Fred Hutchinson Cancer Research Center in Seattle thanked Seattle City Light for its direct and BPA for its indirect support of the center’s energy conservation program. He cited a joint U.S. Department of Energy and Environmental Protection Agency report that named Fred Hutchinson one of the most energy efficient laboratories in the country. Cowan pointed out that Seattle and the Northwest have been trying to attract high tech and biotech industries, which are large users of electricity. “The energy footprint” of a 100,000 square-foot biotech facility probably exceeds the energy footprint of a 1 million square-foot office building, he said. We are uniquely positioned to attract these industries because of the temperate climate and low energy rates relative to the rest of the United States, Cowan stated. Fred Hutchinson spent \$2

million last year on electricity, but the same facility elsewhere in the country would have spent about \$8 million, he pointed out.

On the other hand, the lower electricity rates mean that the payback time for conservation measures is longer than it would be elsewhere, Cowan continued. Without the type of assistance Seattle City Light provides, energy conservation won't happen to the degree it is needed here, he said. Fred Hutchinson has saved 11 million kilowatt-hours (kWh) per year as a result of conservation efforts it has undertaken, Cowan reported. We can't afford not to support energy conservation programs, he concluded.

LeeAnne Beres of SOWS said approach #2 puts a disproportionate emphasis on F&W cuts. She said that while F&W and conservation and renewables are operating underbudget, they are targeted for the most severe cutbacks. Administrative expenses, hydropower and nuclear plant operations and maintenance (O&M), and power business operations are all overbudget, Beres pointed out, adding that BPA should target cuts to those areas that are already overbudget. BPA has a legal obligation with regard to salmon recovery, she stated. Our members are also concerned about jobs, the jobs in the fishing industry, where big losses have also taken place, Beres said. Many in the region share a common vision for the future of sustainable wild salmon, clean affordable energy, jobs and a healthy economy, she stated. BPA's poor decisions threaten that vision, Beres indicated. We aren't inherently opposed to cuts in programs, but we oppose the wildly disproportionate cuts proposed for F&W and energy conservation and renewable programs, she concluded.

Ocean salmon trolling is one of the state's oldest industries, but in matters of power rates and BPA's financial choices, the impact on coastal communities is rarely considered, according to **Judie Graham of the Washington Trollers Association**. We can't allow BPA to again place the burden of its fiscal difficulties on the backs of the commercial fishing fleet, she said. BPA's proposal to cut funding for salmon restoration shows a disregard for coastal communities – the responsibility for salmon recovery is in the law and in tribal treaties, and it is inappropriate for BPA to look at cuts when it is not currently meeting those responsibilities, she said. Federal salmon money could be used more effectively and for starters, BPA could look at removing the four Lower Snake River dams, where barging and trucking salmon have proved ineffective and costly, Graham said. She suggested BPA's problem could be solved with a mix of approaches, including a minimal rate increase and using financial tools. But make no cuts in salmon funding, Graham stated.

Gil Hayes, a steelworker from The Dalles, urged BPA to sell spot power to Golden Northwest Aluminum. He cited an article in the *Oregonian* newspaper, which said supply and demand are out of balance. "With people willing to buy and BPA refusing to sell, it is not a good sensible representation of public agency operation of a great regional resource," Hayes said. Smart business would dictate that power sales equal income, so why not sell to a willing buyer, like Golden Northwest, to create income and not contribute to a DSI bankruptcy? he asked. Hayes pointed out that Golden Northwest's survival and proposed generating facility will be a benefit to BPA in the form of "drought

insurance” in low water years like 2001. BPA should control long-term costs by requiring greater accountability for the wildlife dollars it gives out to the Corps and the Bureau, he said. BPA must become as lean as possible in its own operations, without threatening vital maintenance needs or its Treasury payment, Hayes stated.

Kevin Clark said Steve Wright heard from the Seattle City Council that ratepayers in the city are paying much higher rates as a result of financial pressures at the utility. We have cut spending below our revenue requirement, cuts that include layoffs, he said. The cuts at BPA outlined in approach #2 are necessary, but they are poorly aimed at areas that are already spending below budget, Clark indicated. He pointed out areas, including corporate administration, shared services and power business operations that are running overbudget. If you return to the average spending of 2000 and 2001, you would save \$128 million, Clark said. Focus on cutting where you are overrunning costs, he stated.

Fred Voltz suggested BPA go to peak pricing to cut the capital costs of serving spikes in energy use. With statistical models that are available, why can't you do that? he asked.

Tom Helbling of Siemens Building Technologies said his company provides energy-savings solutions to public and private entities. Most customers are able to implement these measures because of support from their local utilities through BPA incentive programs, he said. Helbling urged BPA not to make cuts in that program. These investments represent a solution, not a problem, he said, adding that they will reduce long-term power demand and support the economic viability and competitiveness of the region. Helbling advised BPA to look at a combination of other strategies, including cost cuts, borrowing to ease immediate cash-flow problems and a small rate increase. BPA's investments in energy efficiency will help avoid layoffs and maintain the infrastructure for providing energy efficiency services long term, he concluded.

Chuck Dawsey said as a full requirements customer of BPA, Benton REA's power costs went up 66 percent in October and that power is 60 percent of the co-op's costs. He said the REA asked its customers to contact BPA directly about the impacts of that increase. Our customers are a six-hour drive away and can't attend these meetings, Dawsey said. So I am here to deliver 2,100 letters addressed to Steve Wright that describe the financial difficulties our consumers are feeling, he continued. We suggest BPA's rate go down to 24 mills per kWh, Dawsey stated. We support the comments that will be submitted by the Northwest Requirements Utilities, and we support the cost cuts they recommend and the changes to BPA practices, he said. “We've reached the bottom of the ratepayers' pockets” – rates must go down, Dawsey stated.

Shawn Cantrell said BPA responded to pressure from utilities and DSIs in the rate case and made estimates that were overly optimistic. Now BPA is looking for more money for Energy Northwest, the Corps and BPA's own administration, he said. We need to be realistic about costs, but we can't shortchange needed investments, he said. There is no basis for \$200 million in cuts to F&W spending, Cantrell stated. We need to recognize that the safety-net CRAC was put in place for a reason, and with costs up substantially, “we need to use it,” he continued. The rate impacts will be great, so BPA should find a

way to mitigate them, Cantrell added. He went on to suggest that budget cuts were not the way to go to solve BPA's financial problems. To get back to sustainable fish runs, we need to have investments where they are needed, Cantrell said, adding that cuts in generating plant O&M could jeopardize safety. With regard to F&W, cuts will disrupt the lives of fishermen and tribal members who depend on salmon, he stated.

We depend on power from BPA to keep jobs in the Northwest and to keep our plants viable, according to **Jack Speer of Alcoa Aluminum**. He suggested that increased efficiency in BPA spending is needed – the Pacific Northwest has a serious economic problem, and we have to do more with less, he stated.

Roger Williams, an architect for Methun Architects in Seattle, said his firm has a 53-year history of designing to minimize the impact of the built environment on the natural environment and resources. He outlined the firm's experience with alternative energy sources for buildings and sustainable design, noting that after the energy crisis of the 1970s, interest diminished in such projects. Williams said he served on a BPA-sponsored conservation study that resulted in the Seattle Lighting Design Laboratory. This lab is "the most premier" facility of its kind in the region, he said, noting that it is an educational lab for designers, vendors and the public on energy efficient lighting and design. I urge you to continue maximum support for this lab, Williams stated. Mithun has completed a number of sustainable projects over the past few years that testify to the economic value of energy conservation, he said, adding that 30 REI stores around the country demonstrate to other business owners that conservation pays. This is not the time for BPA to waiver from its commitment to sustainable design, Williams stated.

Mithun does a lot of residential housing work, including senior and student housing, he continued. It is critical that housing remain affordable, and energy efficiency must be incorporated into these developments, Williams urged. Resist cutting conservation – don't squander the efforts of the past and potential for the future in solving a short-term problem, he advised.

Amy Leska of SOWS said BPA's financial problem is big, but the solutions have focused on cutting costs and raising rates. The current rates incorporate CRACs that can be used in these situations, she pointed out. We don't need to sacrifice salmon recovery and clean energy to this problem – a 7 percent increase would raise rates \$1 to \$3 per month for residential customers, and the IOUs would see even less, Leska stated. She called on BPA to provide a detailed explanation of the F&W cuts that will be proposed. Don't jeopardize investments the region has made in conservation and F&W, Leska urged. Salmon are a Northwest cultural icon and a treasured national resource, she stated. In last year's drought, BPA sacrificed salmon recovery, and it now wants to do so again, Leska contended. Don't sacrifice salmon for a short-term goal, she stated.

John White pointed out that Snohomish County PUD is BPA's largest customer and pays a large percentage of the agency's costs. He said his utility values conservation and renewables and has supported considerable efforts in these areas. Our customers are suffering from the dramatic increases in power costs – they can't afford more increases,

White stated. We are seeing all-time high levels of disconnect notices and customers seeking payment arrangements, along with writeoffs of uncollectable accounts, he said. We understand your situation, but do what you can to examine your costs – reduce them and keep them down, White urged. In a \$3.4 billion budget, you can find reductions, he said. Solve the problem without raising rates, White stated.

Brad Lynch, an aluminum employee from The Dalles, Oregon, urged BPA to sell spot power to the DSIs. This will bring you revenue and it's good business, he stated. The DSIs were encouraged to come here because of the power supply and now BPA will not use the supply available to help them, Lynch pointed out. He contended that withholding power from the DSIs is not operating to serve the general public, as the law required when BPA was established. BPA needs to use all of the options available to produce income, Lynch stated.

Eric Hausmann said the University of Washington supports BPA maintaining and increasing its spending on conservation. He pointed out that in the late 1990s, the university, with the help of Seattle City Light, made considerable investment in energy efficiency and reduced its consumption by millions of kWhs per year, with a four-year payback on investment. Increasing the investment in conservation and renewables is particularly important in this economy, Hausmann stated. We encourage responsible cost reductions, but balance that cutting against long-term goals, he said. Given the financial markets and low interest rates, it is a good time for capital investments and that would help businesses that are struggling, Hausmann said.

Jerry Kucera said the Columbia Generating Station produced power last year at 2.06 cents per kWh. He cited a number of statistics on the plant's cost of production, and indicated that Energy Northwest has given money back to BPA from its budget in recent years. We will continue to work to find cash savings in our operations, Kucera said. Energy Northwest has determined that a condenser replacement for the nuclear plant and fuel purchases could be postponed, which would save \$76 million in the rate period, he said. Energy Northwest has embarked on a debt optimization program that will save millions of dollars a year in debt service, Kucera said.

Energy Northwest has faced higher security costs since September 11 and has had to spend more than expected on spent-fuel storage, since the repository that is being sited at Yucca Mountain is not taking spent fuel, he indicated. For the long-term viability of the plant, we don't want to get behind in O&M, Kucera said. He also reported that the Energy Northwest board is opposed to borrowing to meet current O&M expenses. Energy Northwest is engaged in benchmarking to assure that its nuclear plant is operating at a high standard, Kucera said. We are committed to providing a safe, long-term asset for the region, he concluded.

Cameron Hamilton of McKingtry Co. in Seattle said his company serves large corporations and public entities with energy conservation services. Without the help of BPA's conservation programs, many of our customers would not be able to implement energy conservation projects, he said. Hamilton pointed out that McKingtry uses a

number of vendors and subcontractors, which has a positive economic benefit in local communities.

Corey Freeman of the Northwest Sportfishing Industry Association said he understands the concern about losing jobs. We lost 100,000 jobs in the 1990s due to depressed salmon runs, but this should not come down to a choice between salmon recovery and low-cost energy, he said. BPA can't meet its legal obligations under the ESA or the Northwest Power Act if it makes cuts in its F&W spending, according to Freeman. It's time to renew the commitment to balancing two of our prized resources, salmon and low-cost energy, he indicated. Salmon are too important to the economic backbone of the Northwest to make further cuts in spending on recovery, Freeman said.

Tim Randell, an employee at Alcoa Intalco in Ferndale, Washington, said that for many years his family worked in the salmon industry. For over 30 years, we had a cannery, he explained. We never blamed Bonneville Power for the fish declines, Randell said. We saw the declines – fishing became like a factory and “we caught them all,” he stated. “BPA has deep pockets,” but they aren't the only reason for the salmon decline, Randell stated. Now I work in the aluminum industry, he said. I'm happy to have this job – I wouldn't have one in the fishing industry, Randell concluded.

Gloria Prevost from the League of Women Voters in Kent, Washington, asked that BPA “have transparency” in its interactions with the Federal Energy Regulatory Commission (FERC). FERC is doing things that could influence everything being discussed here, she said.

Jerry Lentz said he is sympathetic with the condition of salmon in the region, but “I haven't seen anyone prove the hydro projects affected this.” I live on the Nooksack River and there are no dams, but salmon runs have declined, he said. I would ask BPA to continue to assure that industries receive power at low rates to keep jobs, Lentz said. We're asking for balance to sustain industry and the environment, he concluded.

We support the Seattle City Light conservation program, **Frank Griffin of the Seattle Public Schools** stated. We have accomplished numerous energy efficiency and retrofit projects through the City Light program, and we are able to put the money saved through conservation toward other uses, he stated.

Sara Patton pointed out that the 2.06 cents per kWh cost that Energy Northwest cited does not include the capital payment on the plant. She said she worries about the idea of deferring maintenance at a nuclear plant because of safety issues.

Closing

Norman recapped the comments he had heard. I heard that jobs and livelihoods are at stake in communities impacted by BPA rates. I heard that aluminum, fishing and energy-efficiency jobs and livelihoods are also at stake, he said. I heard that customers are suffering due to BPA rate increases, that costs must be controlled and that our internal

costs have to be a target, Norman continued. We've been advised to cut in areas where costs are deviating from the rate case and to hit the costs hard, consistent with accomplishing our mission, he said. We heard that there is lots of good being done in energy efficiency and not to jeopardize it, Norman said. There is doubt about whether enough is being done for fish, and we heard that we shouldn't jeopardize the long run to solve a short-term problem, he stated. We heard that we should sell power to the aluminum industry to keep jobs, Norman added. We heard that no one is in favor of a rate increase, but a small one may be acceptable to some people.

We didn't hear much about our Treasury payment probability, and we could use input on that, nor about the relative value of pushing our costs out in time, he added.

Did you feel that you heard any one option that has support? a participant asked. I didn't hear a consensus solution, Norman responded. I heard a lot of encouragement for cutting internal costs – that needs to be a big part of the solution – and I heard that the solution needs to be a mix of approaches – not a single approach will be enough, he concluded.

The meeting adjourned at 4 p.m.

Mountaineers Building, 6 - 9 p.m.
Approximate Attendance: 150

Opening Remarks

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Clarifying Questions and Answers

An unidentified questioner asked about the difference between approach #5 and the other four. Leathley said approaches 1 to 4 are like "a classic nonprofit," taking in revenue and expending it. With #5, BPA would overcollect to manage for the hydro volatility, and we could end the period with \$1.2 billion in reserves, she acknowledged. Is part of the problem that BPA is selling electricity too cheap? asked another participant. The current level of surplus power prices is half of what we expected to get in the market, Leathley confirmed.

Brian Derdowski of Public Interest Associates in Issaquah, Washington, asked about BPA's process for making a decision. Are there stakeholder groups to advise you and is there an appeal mechanism for the decision? he asked. We are not setting rates here, Norman responded. But we will be making decisions about our own internal costs, he said: how much cost to shove into the future; what level of Treasury payment probability to maintain; and about the level of costs for Energy Northwest's nuclear plant and Corps and Bureau projects. We will consult with customers and public interest groups, Norman said. So this is an internal budgeting process? Derdowski clarified. Yes, Norman responded. We will take written comment until the end of September, and a decision will be made in November, "informed by many outside sources," he added.

What effect did the California problem have on this situation? **Jesse Salomon of Seattle** asked. Without the California crisis, our power rates would be a whole lot lower, Norman replied. We paid costs to get our load down when prices were so high, and those costs and the steep dropoff in market prices are the single largest reason for our problem, he stated. Last year, market costs spiked as high as \$1,000 per megawatt hour (MWh), and on occasion this year, they have dropped as low as \$1 per MWh, Norman said.

Erick McWayne of NWEEC in Seattle asked for clarification on approach #3. In that approach, we have a 50-50 chance of making the Treasury payment, so we don't need to collect as much money, Leathley responded. We'd expect to sustain about a half a billion dollar loss under that approach, she said.

What are the ramifications of missing a Treasury payment? asked **Andy Herron of Redmond, Washington**. The Northwest gets the major share of the benefits of the federal Columbia River hydro system, and not everyone in the country likes that, Norman replied. If we don't pay the mortgage on the system, we give those outside the region an excuse to try to get those benefits more broadly distributed, he said.

Jeremy Brown, a fisherman from Bellingham, Washington, asked how the CRAC mechanisms work. **Alan Burns (BPA)** explained that the CRACs hit customer rates pretty equally. The public utilities see all of the CRACs uniformly, and the investor-owned utilities see the safety-net CRAC, he said.

Michael Robinson of Seattle asked if increased efficiencies are possible and how the region's hydro system compares with other such systems. He also asked how electricity rates in the Northwest compare with those elsewhere. There are possible cost reductions we could make internally, Norman answered. We have benchmarked the hydro system against others, and "we look pretty good." BPA's wholesale rates are still among the lowest in the country, Norman stated.

Tom Anderson of Whatcom County PUD asked for a breakdown of costs. Leathley gave the some approximations.

Is running the nuclear plant a moneymaker? asked **Toni Potter of the League of Women Voters in Seattle**. The average costs of running the plant were under \$21 per megawatt-hour (MWh) last year, Norman responded. Last year the power markets were over \$200 per MWh, so last year, it was a very good deal, he said. There are about \$200 million per year in capital costs associated with the plant, **Jerry Kucera of Energy Northwest** added. So the total costs including running costs and capital recovery are about 4.5 cents per kilowatt-hour (kWh), Norman clarified.

With regard to the California situation, wasn't BPA selling power into a high-priced market? a participant asked. Last year we were in a drought, and we were buying from the high-priced market, Burns responded. We also had to make long-term purchases to cover additional load, he said, adding that while prices have come down, BPA is locked into some multiyear contracts.

Are you going to identify the cuts you propose to make in the F&W program first and add up the dollars, or are you going to identify the dollars and cut to that level? a participant asked. The actual decisions on the F&W program are not made in this process, Norman stated. However, we will be deciding the most appropriate cost level to use in the rates process, he said. In this process, are you deciding about cutting F&W and alternative energy development completely? asked another participant. We will make

decisions about conservation, but with F&W, we don't make all of the decisions, Norman responded. Of the F&W costs we manage, we are asking how low can we go and still meet our responsibilities, he said.

The number \$200 million has been floated around for the proposed F&W cuts, said **Rob Masonis of American Rivers**. Are you saying these costs are not on the chopping block? he asked. We are not proposing to cut, but are posing a 10 percent reduction for discussion, Norman said. We are asking, can we spend 10 percent less and still meet our legal obligations, he explained. There are other forums where the decisions on F&W costs are made, Norman said. It's difficult to comment on the effects to F&W if the cost cuts aren't specifically identified, Masonis commented.

Was it a surprise that you had a 1,500 MW increase in demand? **Dave Brown of Seattle** asked. We needed to set rates and sign contracts in 2000, Burns responded, and we estimated the load based on the fact that some customers told us they would go to the open market to make purchases. When we went forward with Subscription, more load was placed on us than we expected, he said. Those contracts are set for five years, so we won't have any more increases in load, Burns explained.

Is there anything in the budget to protect BPA from terrorists? asked a participant. Yes, there is an increment of cost associated with security for the system, Norman stated.

Open Dialogue

We won't be responding to every comment, but I assure you we will be listening during this part of the meeting, Norman said.

I suggest a combination of some surcharge and some Treasury payment probability (TPP) risk, **Steve Leathart of Everett** said. It seems that given the economic climate, you can take some level of risk with the TPP without provoking a reaction from Congress, he indicated. My specific interest is in conservation, and I'd suggest we not cut that, Leathart said. The loss of institutional knowledge would be great, and if cuts are made, that knowledge and experience would be lost, along with jobs, he stated. Leathart said conservation helps keep housing affordable, and conservation programs help defer costs for landlords who upgrade rental units. For the long term, conservation remains a good deal and a good idea, he summed up.

Lee Hinebaugh of Seattle said he understood BPA was looking at increasing rates 7 percent, which translates to \$1 to \$3 per month for the residential ratepayer. At 52, I went back to school, which means "I have less money than a rock," he said. But I am emphatic "to the point of militancy" that this increase is well worth paying for the sake of recovering salmon and steelhead, Hinebaugh stated. People like myself in Seattle are paying for green power programs, and I'd pay more to protect wild salmon and steelhead, he concluded.

An **unidentified participant said he supported approach #2**. Who can object to #2? Why wouldn't this strategy be part of all of the approaches? he asked. He also questioned why BPA would find itself in circumstances where it had set rates and then demand increased significantly.

We absolutely need to look at our internal program costs, Leathley responded. "Belt tightening is on the table before any other actions," she stated. We were in unique circumstances in the late 1990s, Leathley continued. We estimated our rates based on a certain load forecast and then we got 3,000 MW of load placed on us above the resources we had, she said. So we departed from fixed rates and set up this system of surcharges, Leathley explained.

There is a lot of pressure to keep rates as low as possible, **another unidentified participant** advised. I'd like to see BPA charge "the true rates," including enough to cover the environmental costs of the system, he said. "Paying the lowest rates in the country is no badge of honor," he added. The *Seattle P-I* newspaper says the aluminum companies are back trying to cut a deal with BPA, he continued, adding "that got us in trouble before."

Joan Weisenbloom of Seattle said she came from the East Coast, where they pay 20 cents per kWh for electricity. "We've got quite a bargain," and we should share that bargain with the fish, she stated, adding that if the fish disappear, there are costs to the fishing industry. Why are we still allowing people to put in electric heat? Weisenbloom asked. How do we change this? she inquired. Weisenbloom asked if there is a way for BPA to sell its low-cost power to consumers in the East. They would be happy to get it, she indicated.

There is extraordinary public support in the region for F&W and conservation and renewables, according to **Ralph Cavanagh of the Natural Resources Defense Council**. The reason for the problem is that whenever there is a need for a rate increase, customers tell BPA "the economy will come to its knees" if rates go up, he said. In the 1990s, customers said they would leave the system if BPA's rates were above the market, Cavanagh explained. So BPA's conservation programs "were gutted," cut by 80 percent, he continued. The customers said they would take up the slack, but they didn't, according to Cavanagh. Without conservation and renewables, we've let the system get overstressed, and the fish have suffered most, he stated. With approach #1, BPA could solve this problem with a small rate increase; there should be a #1a, in which we could, for another small increase, restore conservation and renewables and F&W investments, Cavanagh suggested. This is a very inexpensive insurance policy for the future – the question is whether BPA will set the premium high enough to assure we do not go through this again, he concluded.

David Kerlick of Seattle urged BPA not to "hold the bag for the big guys." Let them take their own risk, he said.

Lawrence Molloy, a Port of Seattle Commissioner, said the port achieved a 36 percent reduction in the energy used in its headquarters building with a relatively small investment in energy efficiency measures. The agency is continuing that work at SeaTac Airport to increase energy efficiency, he reported. We are seeing a three-year payback on our investment, Molloy stated. Investment in conservation pays off with a 20 to 30 percent return on investment, he added. BPA's 3 to 4 percent investment in conservation pays off – the Port of Seattle is an example, Molloy concluded.

Joe Ginsburg of Seattle said he wanted to add his voice to those who are willing to pay \$1 to \$3 more on their monthly power bill to have salmon survive. I don't want to pay money for things that fail, like barging and destroying wetlands, then mitigating in places that fish won't go, he added.

Martha Barkman of Harbor Properties said the company she works for appreciates the Energy Smart Program for the help it gives developers in identifying areas for conservation in their properties. It's critical to make our projects "pencil," she indicated. The company would like to include energy-saving devices in all of its buildings, but it's a disincentive without the conservation assistance; without a quick payback, we can't afford to do it, Barkman said. We budget for rate increases, she continued. While I applaud your cost-cutting efforts, we are prepared for a rate increase if that's what it takes, Barkman concluded.

I'd like to make the case for long-term stability, **Andy Silber, a Sierra Club member from Kirkland, Washington**, said. Demand has caught up with supply, but if we just increase supply, we'll get gas-fired and coal generation that is hard on the environment, he said. We need to move to conservation and renewables, Silber concluded.

Kathleen Casey, a Sierra Club member from Seattle, asked for a show of hands from everyone in the audience who attended to show support for maintaining programs for wild salmon, conservation and renewables, and low-income energy assistance. That's about 95 percent of the audience, she pointed out.

We don't like to approve rate increases, according to **Richard Conlin, a member of the Seattle City Council**. But our customers don't want to sacrifice F&W and conservation because it might mean a rate increase, he said. As a city, we know these expenses are part of keeping these resources, Conlin added. Our ratepayers don't, however, like to pay more due to California energy prices and "corporate extortion" – they are outraged about it, he stated. We do support effective programs for conservation and renewables and fish protection – keep those programs intact, Conlin urged.

Maralyn Chase, a state representative from Washington's 32nd district, said she found it frustrating "we'd even consider cuts" to salmon funding and conservation and renewables. It appears from BPA's own analysis that such cuts wouldn't allow the agency to meet its legal obligations, she stated. BPA is at or underbudget on salmon spending and conservation, and it is not attacking the costs that are overbudget, Chase pointed out. She urged BPA to craft a future solution that preserves low-cost energy and

healthy salmon. Find a combination of things, Chase advised, acknowledging that might mean a small rate increase.

“You can’t use conservation as a source of electricity,” **Paul Locke** stated. I don’t believe the money we are pouring into conservation is giving us anything, he said. Locke contended there is no value from the spending on conservation and F&W. I support approach #1, he stated. I am very much against not making the payment to the Treasury, Locke indicated. He pointed out the dismal fish returns to the Snake River and contended that the fish being generated in hatcheries can’t survive in the ocean. “You’re wasting your money,” Locke stated. It’s essential that we cover all the costs, but a lot of what we’re paying for is getting us nothing, he concluded.

Tom Schaefer of Seattle said he signed up for green power because he wants power that won’t add to the problems of global warming and nuclear waste. I’m very interested in recovering the fish runs – it’s “a no-brainer” that zero reduction can be made in spending for F&W if we’re not now meeting our legal and moral obligation, he stated.

Bob Schneider of Lynnwood, who said “the law of unintended consequences” is at work with BPA’s rate increases, stated that approaches #4 and #5 are non-starters. The only logical approach is a combination of 1, 2 and 3, he stated. BPA has driven rates up and the rates are destroying our industries, businesses and people, Schneider said. I can name industries that have been shut down because of power rates – I can name whole towns that have been shut down, he added. BPA rates are causing economic and environmental harm, according to Schneider. I have gathered firewood to burn this winter, instead of using electric heat, and I know others who have done the same – that will cause pollution in the area, he said. Schneider urged BPA to look at costs for fish and other programs – air pollution is an unintended environmental consequence of the higher rates, he said.

Jeremy Brown pointed out that while some people have lost their jobs because of the low power rates, BPA’s rates have decimated fish runs. There are jobs in fishing, too, and we are directly impacted by the way the power system is run or not run, according to Brown. He urged BPA to knock down the dams on the Snake River to help the runs.

Toni Potter urged BPA not to cut conservation and renewables. They are a good investment in clean energy, energy that doesn’t rely on a foreign government, she said. Potter said she would like to see a cost-benefit analysis of the region’s nuclear plant.

Nancy Wright of the Earth Ministry in Seattle said she strongly supports renewable energy and saving wild salmon, which she called “a gift from God.”

Continue your conservation programs, urged **Emmett Moore of the Seattle Housing Authority**. Even a marginal rate increase can be catastrophic for low-income people – a 2 percent rate increase can be a choice between “eating people food or dog food,” he stated. A reduction in the conservation programs hurt people – maintain full funding for programs that help low-income people and people of moderate means, Moore advised.

Joelle Robinson of Seattle read a poem she wrote about wild salmon. I echo the sentiments of many who spoke before me, she stated. Salmon have a right to live here, and BPA has a legal and moral responsibility for funding F&W programs, conservation and renewables, and clean energy, Robinson said. BPA has the tools to use to meet its costs without cutting support for salmon or clean-energy programs, she stated. As a Seattle City Light customer, I am willing to pay more, Robinson said. She said she supports more assistance for low-income households. The Bush Administration has not fully funding the region's salmon plan – please let my nieces and nephews have salmon in their future, Robinson concluded.

Michael Shank of Biodiversity Northwest in Seattle said he is tired of hearing the idea that conservation and renewables don't make money. He pointed out that he attended a conference in the Philippines where they were talking about innovative ways of making money with conservation and energy efficiency. BPA is using traditional methods – be a leader, he urged. Shank said BPA should look at its administrative costs and make cuts. He cited meetings with BPA transmission officials about a project proposed for the Cedar River Watershed at which there was more BPA staff attending than necessary. These people had to be brought in by helicopter – we could have just had one BPA person, Shank indicated. Conservation and renewables are an alternative to the transmission line construction BPA is proposing through the Cedar River watershed, he said. Interests that want to protect the watershed have insisted BPA study other routes, including one that would take out homes in Maple Valley, and that has residents in Maple Valley unhappy, Shank explained. If BPA cuts conservation and energy efficiency, their hope is gone, and “I don't want that to happen,” he stated.

“We have an obligation to save wild salmon,” **Tim Hesterberg of Seattle** stated. You should not cut conservation and renewables; in fact, you should expand the program to more people, he stated.

Ed Henderson of the Mountaineers in Seattle said he could favor BPA increasing efficiency in the F&W program by curtailing bargaining. You have spent \$3 billion over the years bargaining salmon down the Snake River, and they are still going extinct, he stated. Remove the four Snake River dams, Henderson urged. I support BPA efforts to increase F&W efficiency – do something else “because what you have been doing is a waste of money,” he stated.

Rob Masonis requested a public hearing to talk about any proposals if BPA identifies specific efficiencies in F&W spending. How can we cut when the federal fish plan is not being implemented? he asked. If there are \$200 million in cuts that could be made, we have a plan “that is larded up with ineffective measures,” Masonis stated. If you pursue F&W cuts in earnest, give us another chance to discuss this with you, he urged.

Brian Derdowski cautioned BPA against setting an artificial cap on expenses that can stand in the way of making good investments. He said he saw that happen when he was on the Metro Council, and it was not a good way to go. Derdowski suggested that BPA look at the money that is being spent on F&W and ask whether the dollars are being spent

in an effective way or in a “piecemeal” fashion. You can get “more bang for the buck” if there is a coordinated effort, he indicated. Derdowski advised BPA not to do “a top-down budget,” but to start at the bottom and look at each expense to see if it is cost-effective. If you reduce F&W costs, it will do little to solve your budget problem, but it will do damage to your support base, he said. Don’t kick the strongest supporters for public power for “some illusive short-term rate reduction,” Derdowski counseled.

Angela Emery of Seattle said it is unacceptable to cut the F&W program. It would be short sighted, she said. I would support a small rate increase, Emery stated, pointing out that it is a small price to pay for the benefit we could get. There is a common-sense reason, as well as a legal requirement to keep the F&W spending intact, she said. Let’s remember that once the salmon are gone, they are gone, Emery stated.

Justin Pidot of SOWS said that couching the financial decision in reasonable values is a good approach. Salmon are the livelihood of many people in Seattle – salmon are jobs, he stated. The bottom line is that we are sacrificing salmon and coastal communities by not funding fish recovery, Pidot indicated. The only items that are within budget in BPA’s expenses are F&W and conservation and renewables, he said. But these areas are slated for cuts – look at the programs that can’t stay within their budget to meet the bottom line, Pidot urged. He cited a statement that Steve Wright made about the need to recover salmon: if we fail to save the salmon, we put the hydro system at risk. Pidot asked BPA to take that sentiment to heart in making its financial choices.

There are many people in the Northwest and around the country who would be appalled at what we are putting on the backs of the salmon, according to **a representative of the National Wildlife Federation**. She voiced her support for fish and wildlife and conservation funding.

Joe Katroschik of The Dalles suggested BPA encourage a net-metering program, under which customers could produce a portion of their own power and go on and off the grid. If you produce your own power, you can get off the grid and save power for other things, he stated.

A Snohomish County PUD customer said both customers and fish can survive. Who here can say that 2000 and 2001 were not an opportunity to manipulate rates and drive power costs up? he asked. If it were not for that “money grab,” we’d have plenty of money for everything, he said. There have been terrible errors of judgment, he acknowledged, adding that given the costs, rates in Snohomish County could go up to 9 cents per kWh.

Alf Larsen of Seattle said that fish and the environment are important, as are putting money into “real” conservation and being efficient in operations. My principal objection is to the long-term, expensive power contracts, he stated. I think BPA should think about telling Enron and the other companies that these contracts were signed in an environment “that was rigged” – stand up to these people, Larsen urged. “God bless the fish, but there

are a few humans around here too,” he stated. There was criminality involved in giving us this problem, Larsen concluded.

There is a consensus in this room that stewardship of the system is lacking, according to **another meeting participant**. The idea of conservation and renewables is great and reducing this investment is abandoning the obligation to stewardship, he said. There is a real cost in dealing with a changing climate that has not been figured into this, he stated. The change in rainfall patterns could affect the operation of the dams, he said. He urged BPA to maintain and recover fish habitat.

Al Aldrich, manager of Snohomish County PUD, said if BPA’s financial problem is solved with a rate increase, it means customers in Snohomish County would pay \$100 million more over the next four years. Our customers can’t take that, he said. Aldrich urged BPA to show great leadership, reduce its costs and solve the problem without raising rates.

Rob Lothrop said the Columbia River Inter-Tribal Fish Commission (CRITFC) is deeply concerned about BPA and the Bush Administration “reneging on promises” they made to the tribes on fish recovery. From 1998 to 2000, we were assured that BPA would fully fund its F&W obligations, even if it meant deferring Treasury payments, he said. Yet in 2001, BPA cut its F&W spending to meet Treasury and now BPA wants to reduce future F&W funding to improve its finances, Lothrop said. One-third of the problem is due to cost overruns at the WPPSS nuclear plant, and also increases from the Corps, Bureau and power business line operations, he continued. BPA is not exceeding the spending levels for F&W and conservation and renewables that it set in the rate case – look at areas where there are cost overruns occurring to make any cuts, Lothrop suggested. The F&W managers are already looking at \$100 million in unfunded projects that have passed scientific reviews and been recommended for funding by the Northwest Power Council, he stated.

David Thomley of Seattle voiced strong support for #1. The financial problems at BPA have nothing to do with the cost-effectiveness of conservation or the F&W program, he said. These programs are major investments in the region, Thomley stated.

Ruben Ostria, a Seattle-area conservation contractor, said the small businesses he works for need the conservation and energy efficiency programs offered by Seattle City Light and Snohomish PUD. On their own, the investment takes too long in payback, but because of your program, they can make it work, he indicated. I hope the program will continue, Ostria urged.

Norman Winn of the Mountaineers pointed out that BPA has enforceable obligations under the ESA and tribal treaties to fund F&W recovery. BPA cannot disregard these legal obligations because of “temporary financial setbacks,” he stated. BPA has not said what kind of efficiencies and cost savings it could find in this program, Winn continued, adding “it’s absurd” to have hearings without the details on the proposed cuts. Conditions could change drastically in five years, he added. The Mountaineers believe

that no cuts in conservation and renewables are warranted – borrow at low interest rates to get through the problem or implement a small rate increase, Winn suggested. Don't cut your investment in energy efficiency – now is not the time to cut down on these programs, he concluded.

Tom Anderson of Whatcom County PUD told BPA that rate increases hurt in rural counties. I encourage you to keep rates stable, he said. You have made two mistakes, Anderson continued: signing high-cost power purchase contracts and letting public utilities come back from the market and place load on you. BPA has no choice but to aggressively control costs now, he stated. I advocate long-term conservation, but I don't like subsidies, Anderson said. We are sitting in the room of an organization that portrays itself as big on environmental stewardship, yet this room has inefficient incandescent lighting, he pointed out. The aluminum company in my service territory has installed all high-pressure sodium lights to increase energy efficiency, Anderson said, adding that environmental organizations need to “walk their talk,” he stated. Anderson also questioned whether BPA's F&W dollars help in his local area, specifically on the Nooksack River.

Brett Wedeking of Kirkland, Washington, said he witnessed dozens of spawning fish on the American River recently. F&W programs are worth any increase in rates, he said.

Erick McWayne said he runs an environmental organization that lives up to its mission, listing several ways in which the organization conserves resources and energy. He questioned what the incentive is for organizations like BPA to push conservation, when it cuts revenue and leads to layoffs. The system has “a feedback mechanism” that is a disincentive to conservation, McWayne stated.

Jeremy Brown pointed out that Whatcom County has the second largest fishing fleet in the Northwest. We benefit from BPA's investments in F&W, he stated.

Closing

Norman summarized the messages he had heard at the meeting, including:

- An overwhelming message that conservation is the right thing to do.
- An increase of \$1 to \$3 per month on a residential customer's bill is not too great if it sustains F&W funding.
- Power in the Northwest is still cheap relative to the rest of the country.
- Don't jeopardize long-term programs for a short-term problem.
- Be specific about where you would make any cuts in F&W spending.
- BPA needs to focus cuts on its own administrative costs.
- Go after the Enrons of the world, with whom we have high-cost power contracts.

He encouraged participants to write their additional thoughts down and send them to BPA by the end of September. Norman thanked participants for their comments. By mid-November, we will decide about the measures we will take, Norman said. The meeting adjourned at 9:10 p.m.