Bonneville Power Administration
Financial Choices Public Meetings

Burley, Idaho
August 28, 2002

United Electric Co-op, Heyburn, Idaho – 1 - 4 p.m.
Approximate Attendance: 40

Opening Remarks

Paul Norman (BPA) welcomed participants and provided background on BPA's financial situation. **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

Last year, BPA entered into some high-cost contracts – how is that influencing your financial situation? a participant asked. We bought power from several suppliers, including Enron, and we bought-out contracts from some of our customers to reduce load, Norman responded. Some of those contracts "look lousy now," he acknowledged. We terminated some Enron contracts, saving about $100 million; our position is that Enron was a bad player in the market, so we have gone to the Federal Energy Regulatory Commission (FERC) to have the rest of our Enron contracts rescinded, Norman said. Our biggest contractual obligations are to Puget Power and PacifiCorp – the residential customers of those companies are getting a lot of rate relief from BPA, he said. Other power contracts are standing the test of time, but the Enron, Calpine and investor-owned utility (IOU) contracts are the most expensive, Norman stated.

Since the aluminum companies chose not to use the energy they purchased, how did you end up with 3,000 megawatts (MW) of additional load? a participant asked. The DSI contracts were signed two years ago, after considerable "log rolling" to get to an agreement, Norman answered. Out of that process came 1,500 MW of sales to the DSIs, he said, noting that in the previous contract period, the DSIs had rights to 2,000 MW. Norman explained that much of the unanticipated load came from public power utilities that had earlier taken load off BPA to purchase from the market, but then returned to BPA. We committed 1,000 MW of power to the IOUs, he added.

What is the genesis of the $1 billion revenue hole? another participant asked. Our revenues are down, and we expect $710 million less from surplus sales than we estimated in the rate case, Norman responded. He referred to Figure 1 in his July 2 letter that cites cost overruns in programs, an increase in the residential exchange costs and a drop in 4(h)(10)(C) credits, which are associated with fish recovery.

Your internal program spending is up dramatically, almost double, from the rate case projections, an audience member commented. Why is that? he asked. The categories of spending that have increased are power purchases, operating the nuclear plant, and Corps and Bureau hydro O&M costs, Norman responded. We're talking to Energy Northwest about the nuclear costs, and they will be bringing us recommended cuts, he added. The O&M for operating the system is up $155 million over rate case projections, and internal program costs are over $200 million more, Norman went on. "These costs are too high and they have to come down," he stated. Part of this Financial Choices process is to set new cost levels and manage to them, Norman said.

Can you run the nuclear plant for economic dispatch? asked one questioner, adding that current market prices don't cover the $26 per megawatt-hour (MWh) it costs to operate the plant. If you shut the plant down, you don't save $26 per MWh, you save about $5, Norman responded. When you shut down the plant temporarily, most of the cost is still there. Despite this he said the nuclear plant's output was cut back earlier this year because of low market prices.

How much are increased security costs for the system? asked one participant. In round numbers, the costs are an additional $5 million to $10 million per year, Norman said. Aren't there funds from Homeland Security for that? the participant asked. No, unless something changes, Norman replied.

The Slice customers are subject to the load based cost-recovery adjustment clause (LB CRAC), but there is also a true-up at the end of the year, another participant commented. Aren't the Slice customers picking up excess costs this year? he asked. This year, we're pretty much on budget with the rate case, Norman replied. The problem is in upcoming years, he said. In fiscal year (FY) 2003, the Slice customers will pay for what occurred in 2002, and in FY 2004, they'll pay for 2003 – there is a year of grace, Norman explained.

Why have the 4(h)(10)(C) credits diminished? asked a participant. That is primarily due to the reallocation of project purposes at Grand Coulee, Norman stated.

How would the approaches you've outlined be combined for a solution to your problem? asked another participant. We haven't decided – it's an open question, Norman replied. We won't solve this all through rates, he added. We want your input on the right combination of approaches, Norman stated.

So you're coming into the end of the year with a deficit due to surplus sales revenue being down? a participant asked. We thought we were being conservative when we estimated the price for our surplus power sales at $55 per MWh in the rate case, Norman responded. At that time, the market was over $100, he noted. Is BPA not allowed to participate in the futures market? Couldn't you have hedged your purchases? a participant asked. Two years ago, we bought 1,000 MW on a five-year contract at a price in the $20s per MWh, Norman responded. At the time, we thought we'd need 1,700 MW above federal resources, but in reality, we needed an additional 1,500 MW on top of that, he said. By the time it became apparent that we'd have that much load, the market had gone way up, Norman explained.

Is there any mitigation possible on the IOU contracts? a participant asked. It's a difficult situation because the money from the contracts goes to the residential and small farm customers of those utilities, Norman said. We do think it's part of the solution to reduce those payments, but it will take a joint agreement among the IOUs, publics and BPA, he added.

What do you mean by cost-cutting – are you just "mitigating waste" or getting into painful cuts? asked another participant. We're not through with cost cuts, Norman said. Our single biggest expense is fish costs, and we've asked, can't we reduce these costs by 10 percent – $200 million over the rate period – by having a more cost-effective approach, he said. The Northwest Power Planning Council (Council) is now looking at river operation costs Norman stated. If we said we were making no more investments in conservation, we would save $36 million; cutting the renewables program would save $12 million; and we've reluctantly looked at deferring O&M on Corps and Bureau projects, he explained. We haven't postulated anything yet for the nuclear plant savings, Norman added. Other cuts would include wiping out the employee awards program and making cutbacks in travel and training – we've already imposed a hiring freeze, he said. Except for some internal cost reduction, which we have already started, these other cost reductions are what we are asking for input on.

How much are the F&W costs? a participant asked. They're about $550 million per year, Norman said, adding that BPA forecast a $100 million increase in F&W spending in the rate case, which pushed the spending up from $450 million. So when people talk about cutting the F&W program by 10 percent, they are talking about it not going up by that $100 million, but rather by half of that amount, a participant observed.

How much of that $550 million is in foregone energy production and what is the confidence level in that figure? a participant asked. The hydro operations costs are very roughly half of the $550 million, Norman responded, adding that most of that expense is associated with spill. The confidence range "is huge," he acknowledged. The calculation is based on the market price of energy, and "you tell me what that will be in a year," Norman said. Spill costs us very roughly $200 million a year, he added.

Open Dialogue

In this part of the meeting, we'd like to hear comments about what makes most sense to you in how we should solve our financial problem, Norman said, opening the meeting for a dialogue.

My message for BPA is that rates are too high for everyone, stated **Don Henning, a United Steelworker from Goldendale, Washington**. The Goldendale community is already depressed; we depend on the aluminum industry, and of the 1,200 workers that once had family-wage jobs at Golden Northwest Aluminum (GNA), we are down to 309 "and fading fast," he said. The layoffs pull revenue out of the regional and local economy, Henning indicated. The problem is basically the same for all of the 10,000 aluminum workers in the Northwest, he said. GNA "is trailblazing into the future" finding other sources of energy, and it hopes to be self-sufficient by 2006, Henning said. Resources GNA develops will provide BPA with extra power during times of drought, he added. We can't achieve this without relief now, Henning stated. BPA, lower your rates, get people back to work and help the economy, he concluded.

Peter Richardson of the Idaho Energy Authority (IDEA) in Eagle, Idaho, said the consequences of BPA's decisions will be borne heavily by power customers, including members of IDEA. Do not risk your Treasury payment – make the payment in full and when it is due, he advised. We oppose prepayments and particularly payments that are not credited against future payments when due, Richardson stated. Safety must continue to be a guiding principal, along with reliability, he continued. There should be no diminution in the quality of service – unreliable service hurts the economy and threatens the health and lives of citizens, Richardson said. In addition, we value electricity provided at the least cost – electricity is not a luxury, but is vital to the well-being of the economy and the citizenry, he said. Our customers tell us they have reached the limit of their ability to take more increases – they are not acceptable, Richardson stated.

He recommended that BPA look at each line item in its budget for ways to cut costs. Every significant item in your budget is projected to be above estimates; bring them down to within the rate case projections, Richardson urged. There seems to be a lack of "frugality" at BPA, he continued. Richardson pointed out that several Financial Choices meetings were held in hotel ballrooms, adding that only in Idaho, is BPA using a free facility at United Electric. "An entity in a financial crisis would not make such wasteful decisions," he stated. BPA should look to its customers or other government agencies for meeting facilities, Richardson said. This is not "a trivial matter" and indicates a culture of "spend spend spend at a time when the budget is already broke," he stated. Richardson added that IDEA utilities are seeing a significant problem with uncollectable accounts.

He advised BPA to do the following: cut internal costs; implement the Biological Opinion, but look for efficiencies and only fund measures that have been proven effective; examine hydro operations in light of the Montana and Idaho proposals relative to flow and spill on the mainstem; reduce conservation spending; and use all available cash tools to eliminate the need for the financial based (FB) and safety net (SN) CRACs.

I support what Pete just said, **Bill Spaulding of Lower Valley Energy** stated. He related his personal experience, watching his savings and retirement disintegrate in the recent economic downturn. I decided to get out of debt and cut luxury spending, Spaulding said. "It's a time we need to hunker down" – every luxury item needs to go," he stated. Survival for BPA means cutting costs wherever you can, Spaulding urged. Don't risk the

Treasury payment – make it on time, but not early, he stated. And don't push the problem out to the future for our children and grandchildren, Spaulding added. What counts now is serving consumers and protecting each other, he said, adding that the events of the summer, with kidnappings and terrorist threats, have been unsettling. Everything has to be reanalyzed, Spaulding stated.

Fish and conservation spending represents a lot of money, and those expenses need to be reprioritized, he continued. Sell power at the lowest possible cost, and cut all luxury items – where there are mandates on this spending, fight hard to get them removed for the time being, Spaulding advised. Utilities can help – we can all pull together and help BPA out – but BPA has to cut all but the essentials, he concluded.

Cleo Cheney, the mayor of Heyburn, Idaho, said his town has many low-income and retired residents. He urged BPA to look closely before it raises rates to people who are already struggling. You asked us to cut back our consumption last year, and our town did well on that, Cheney said. Now, do your part, he stated. We are having tough times, so cut your costs – "we've done our share, now you do yours," Cheney stated.

Dile Monson of the City of Burley said his utility did not pass all of last year's BPA increase along to its customers, but has taken other steps to meet revenues, like tightening up its collectables policy. The level of uncollectables is two and a-half times what it has been in the past, he stated. Any increase in power rates becomes very difficult for us, Monson said.

Mechell McFarland of Mini-Cassia Development said the local Simplot plant announced it will close. While the closure will be phased in, 649 people will be without jobs by April 2004, she said. This will have a huge impact on the agriculture-dependent Minidoka and Cassia county economies, McFarland pointed out. Many of the 649 employees have over 20 years at the plant; there are 44 salaried positions, as well as hundreds of hourly employees, she said. McFarland said Mini-Cassia calculated the direct impact to the local economy from the loss of wages and benefits to be $18.4 million per year. There are also suppliers and vendors in the area, who will lose large amounts of revenue and be forced into layoffs when the plant closes, she pointed out. The total could be $30 million in lost dollars to the economy, McFarland said.

The impact will be significant on farmers, as well, she continued. McFarland detailed how many thousands of acres are planted in potatoes in the area. Simplot bought many of those potatoes to process at the plant, she said, a crop worth millions of dollars to local farmers. If those potatoes are sold on the open market, it will bring down the price considerably, and it could cause some farm liquidations, McFarland pointed out. The impact is huge and the outlook is grim, she indicated. It is doubtful that many of the Simplot employees can find other employment, McFarland said. It is the wrong time to increase power rates, she stated.

Chad Colter of the Shoshone Bannock Tribes said he wanted BPA to know there is "another culture here." Our values lead us down a different path, he said, adding that the tribes support a natural river policy. We once fished on one of the world's largest salmon runs, which ended just miles from here, Colter stated. Our culture was based on fish and game, and we once had millions of acres of range, before we were forced onto a reservation, he said. On the reservation, we have unemployment rates up to 60 percent at times, and people make difficult economic choices every day, Colter pointed out. Fish and wildlife play an important part in our life – they are our culture, he stated. We hear that BPA is rethinking its role in F&W spending above Hells Canyon Dam and may only put money into wildlife above the dam, Colter said. We have made investments in the Upper Snake, and our resident fish investments would go down the drain without support, he indicated. Until we start looking at the river as a whole, we'll have a problem, Colter said, adding that the Upper Snake is treated "like a spigot that gets turned on and drained." There are other values here – we put high value on F&W, and we don't want to see them suffer, he concluded.

Ralph Williams of United Electric Co-op said it is important to the customers that BPA make appropriate expenditures for F&W. We hope that FERC forces the IOU licensees of dam projects to step up to their F&W responsibilities, he stated. We realize BPA is facing serious times, and we're committed to helping you in your effort to solve the problem, Williams said. United supported the CRACs in the rate case in order to get around triple-digit rate increases, he said. United is part of IDEA and the Northwest Requirements Utilities (NRU), Williams said, referring to NRU comments that have been submitted to BPA. We don't support prepayments to the Treasury, but we do support payments made in full and on time, he said. We encourage you to aggressively cut costs and to use the financial tools available to hold down rates, Williams said. He also encouraged BPA to make its financial choices by October 1.

We urge you to focus on FY 2003, Williams continued. Get past the first hurdle before you tackle the out-years, he advised. Pursue a combination of approaches with cost cuts and cash management tools, Williams recommended, adding that with those measures, BPA should be able to achieve $300 million in cost savings over the rate period. Set aside consideration of the SN CRAC, and put off the FB CRAC, he said. Work with your customers to explore areas of potential savings, he said, adding that Idaho and Montana Power Council members have made proposals that would reduce the impact of spill and flow on the hydro system, without compromising fish survival. If the Council adopts those measures, it will be a more cost-effective way to meet the goals, Williams said.

This is a Northwest problem, he summed up. It would be a big mistake to try to manage the situation through going to Washington, D.C., Williams concluded.

This is the fifth year of depressed agricultural prices and drought, according to **John Evans of the D.L. Evans Bank** in Burley. This is the most perilous drought we can remember in the past 25 years, and farmers are barely breaking even, he stated. Increased electricity rates "could break their backs," Evans said. The Simplot closure will impact us, he continued. Simplot is relocating its operation to Canada, and a rate increase will discourage other companies from coming into the area, Evans added. There will be 650 people laid off with the plant closure, and without good jobs, they too will have trouble making ends meet – a rate increase will make their situation worse, he stated. A rate increase would have a profound negative impact here – keep rates stable, Evans urged. Don't miss a Treasury payment, cut costs, and when you have available revenue, increase water storage capacity and pursue renewable resources, he stated.

Bert Bowler of Idaho Rivers United said BPA has short and long-term problems. In the short term, cut costs, raise rates slightly and use short-term borrowing to bridge the gap, he recommended. Clean energy and conservation are not the problem – they will keep rates stable over time, make the region less subject to volatility in the power market and they offer environmental benefits, Bowler said. According to a recent GAO report, the region has spent $3.3 billion on salmon over the past 20 years, he continued. That money has to be spent more wisely, and we should use our experience to improve the process of recovery, Bowler said. Money is being wasted on making the Lower Snake River dams more fish friendly, he stated. If we had removed them, we would be on the road to recovery, according to Bowler. Adaptive management, which is the course being taken for many recovery efforts, calls for making a significant change and evaluating the outcome, he indicated. We are now "tweaking the dams," and it is not working, Bowler stated. The dams produce 1,100 MW of power, but not at a time seasonally when it is needed in the region, he said. Bowler cautioned BPA against continuing to invest in the Lower Snake projects for little gain.

"BPA has egg on its face" with its financial situation because the 2002-2006 rate case was seriously flawed, according to **Tom Stuart of Idaho Rivers United**. BPA oversubscribed the system and made bad assumptions – "BPA took a risky gamble and lost," he stated. I hope we learn some lessons here for the next rate period, Stuart said. Most Idaho customers are not served by BPA, so BPA rates may or may not affect them, he continued. There is a widely accepted commitment to salmon recovery in Idaho, Stuart said. Any economies in the state that are dependent on agriculture and food processing are suffering, but for reasons that go way beyond power rates, he stated. Sport fishing has also seen job losses – 10,000 in the 1990s, Stuart pointed out. The spending on F&W is not adequate now, so it cannot be cut, he said.

Stuart contended that Idaho salmon are not treated equitably with salmon in Washington and Oregon. He pointed out that the survival for runs in the coastal states are greater than those for inland salmon, and he urged Idaho's Council members to seek more equity for the state. Stuart said flow augmentation could be a good deal for farmers, who can make water available on a willing-buyer, willing-seller basis. He also said it was a mistake for BPA to cut energy efficiency programs in the 1990s. These programs contribute to stability and are part of the solution to rising rates, Stuart indicated. Salmon recovery efforts are, he pointed out, a legal obligation for BPA and should not be cut.

Stuart said internal cost cutting at BPA is a good idea, but "don't overreact." It would be prudent and wise to consider a small loan to buy 12-18 months and allow BPA to take a longer-term look at the market, he said. You may have to raise rates slightly, but a 7 percent increase, more than it should take, would make up the entire $800 million shortfall over the next four years, Stuart stated. I encourage you to use a mix of tools to minimize the impact on ratepayers and buy some time, he concluded.

Don Angell of Wells Rural Electric said Wells supports the NRU position and the IDEA comments. It is important for BPA to focus on one year at a time because of the uncertainty in the industry, he said. You need to minimize rates and cut costs, Angell said. Wells' largest customer is Newmont Mining Co, which has a 50 average MW (aMW) load, he said. As a result of the LB CRAC, Newmont paid an additional $4 million in rates from 2001 to 2002, according to Angell. The gold mining industry is struggling, which affects all of northeast Nevada, he pointed out.

We oppose any additional rate increase – take all the steps necessary to avoid the FB or SN CRACs, Angell urged. Wells is a presubscription customer, but we do have concerns about 2007, he continued. It's important to implement the cost-saving measures now to mitigate the situation in the future, he said.

Keith Kutchins a biologist for the Shoshone-Bannock Tribes said that while BPA is postulating the "what ifs" with regard to cuts in F&W spending and conservation, it should look at how much would be saved by retiring the four Lower Snake River dams. Learn from your mistakes, he urged. The dams have not brought about a robust economy or healthy F&W in Idaho, Kutchins said.

Scott Levy of Ketchum, Idaho, said he would recommend approaches 2 and 3, cost cuts and delaying the financial problems. Raising rates is undesirable for us all, he said. It would make BPA's situation worse – customers would be drawn to low-cost providers and the remaining customers would be asked to pay higher rates, according to Levy. The greatest benefit of the recent energy crisis is it brought about reduced consumption, increased efficiency and increases in the supply of electricity, Levy pointed out. In addition, "it has raised the volume of the public voice" for utilities to seek renewable energy, he said. The California legislature is considering a requirement on utilities to increase their renewable energy by 1 percent a year until 2017, Levy said. He pointed out that Cassia County could generate 1,200 MW of wind power at a lower cost than the energy supplied by the four Lower Snake River dams.

The 2000 Biological Opinion resolved the argument about where the salmon die – they die in the reservoirs, Levy said. The Biological Opinion says that in the next three years, we should do everything we can for salmon to save the dams – the true way to save the salmon and cut BPA costs is to remove the dams, he stated. The real question is can we continue to provide the benefits of the four dams if they are removed? Levy asked. He suggested the region could find a way to irrigate farmland, and ship wheat and other products without the dams in place. Barge operators are not charged for the expenses they incur, and they are not asked to pay their share in the salmon recovery costs that BPA ratepayers are currently paying, Levy said. He also suggested ways the region could replace the 1,200 aMW of power the dams generate with conservation, efficiency or renewable energy. California has installed 4,600 MW of gas-fired generation in the last 15 months and achieved 1,200 MW of energy efficiency, Levy said. "Throw off the shackles of obsolete technologies and set a course toward progress and a brighter future," he urged.

"Everyone wants somebody else to solve the problem," **John A Stevenson, a state legislator from the 26th District** said, but "everyone has to participate." He said he had attended five mediation sessions recently and in almost every one, someone "wanted to get a hand in BPA's pocket to solve the problem." We need to change the BPA image of being the deep pocket, Stevenson added. He pointed out that with the Biological Opinion there is a mandate to make expenditures, but that is not the case for some other spending. The only place BPA and the IOUs get money is from the ratepayers, Stevenson said. In the past, we could bring industries to this area because of our low electricity rates, but if rates go up, we will no longer be able to do that, he said. Stevenson urged BPA to keep its rates low – if there is any way possible to hold your rates, we would appreciate it.

Closing

Norman summed up the messages he heard from the participants. He said he had heard how shaky the economy is, especially irrigated agriculture, how many jobs are at risk, and how big an impact power rates are having. I heard that BPA should not jeopardize its Treasury payment or the safety and reliability of the system, Norman said. We were advised not to prepay taxes, nor to push our costs out of the rate period, he continued. We were urged to keep rates as low as possible and that no increase is acceptable, Norman said. Disconnect rates are at historically high levels, he added. I heard that a small increase would be acceptable to preserve tribal culture and our conservation programs, Norman said. We were told to look at cutting expenses, that there was a lack of frugality in our spending and that we should get our costs back to the rate case levels, he said.

I heard that we should encourage the IOUs to do their part for fish and that we may be better off retiring the Lower Snake River dams, Norman continued. We also heard that overall spending on salmon is inadequate, he stated. On costs, you told us "you did your part, and it's time for us to do ours," Norman said. And we were urged to make decisions by October 1 and work with customers on the solution, he added. We were told not to overreact and to solve 2003 before tackling the years beyond, Norman said.

I wanted to point out that almost every ratepayer in the region is affected by BPA rates, Norman said. All residential customers of IOUs are on the hook for some of our increase, he added, noting that Idaho Power customers are among the least affected.

Written comments are due by the end of September, Norman announced. The schedule for a decision on the FB CRAC is set by the rate case as the end of September, and we will also consider the comments and make a decision on Treasury prepayment by the end of September, he added. We expect to make a decision on internal costs and the Treasury risk by mid-November, although we've been advised to speed up that process, Norman noted.

The meeting adjourned at 3:45 p.m.