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August 6, 2003

## MEMORANDUM

**TO:** Council Members

**FROM:** Dick Watson

**SUBJECT:** Restarting the Regional Dialogue on Bonneville's future role in power supply

Council and Bonneville staff have been meeting to plan the restart of the Regional Dialogue on the Future Role of Bonneville in Power Supply. As in most things in life, anything worth doing is not going to be easy. The initial Regional Dialogue was in response to an agreement reached by public and private utilities regarding the future role of Bonneville. There was a remarkable degree of agreement among the customers on a number of key elements: 20 year contracts; a limited role for Bonneville in developing additional resources over the capability of the existing system, and a settlement on a formula for determining the benefits to be provided for the residential and small farm customers of investor-owned utilities, to name some of the more contentious. The operating assumption was that utilities would negotiate new 20 year contracts to begin in October of 2006. The Council's recommendations developed at the end of the process advocated some detail changes to the proposal but certainly supported the main thrust of the proposal.

While there were initially follow-on discussions on details of the agreement, they came to a halt as the region focused on the Safety-Net CRAC issue and many of the key players remain involved in trying to reach a settlement of the IOU residential and small farm benefits for the 2007-2011 period. During this period, the momentum of customer proposal has, according to some accounts, dissipated significantly.

As we plan restart of the Regional Dialog, there are a number of facts and considerations that will have to be kept in mind. The attached "Map of Alternative Routes to Bonneville's Future Role" attempts to capture them on a single piece of paper. It will, however, require some translation, which I will try to provide at the meeting. Key points are as follows:

- Most customers have contracts that last until October 2011. They do not have to trade them in for new contracts unless they want to.
- Contracts with DSIs (1425 MW) do expire in 2006 as do contracts with approximately 600 MW of public utility load. Bonneville is not legally required to serve the DSIs and it is highly unlikely that there is 1425 MW of DSI load to serve post 2006. BPA does have

to serve the public utility load if asked. Without the DSI load and with IOU benefits in the form of dollars rather than MW, Bonneville can serve the public load with little augmentation of the base system. Contracts for these loads could be a prototype for the contracts for the rest.

- Resource decisions for supplies for the post 2001 period will have to be made sometime in the 2008-2010 period. This is a major concern for the Council. Uncertainty about who will have responsibility for serving loads beyond the capability of the federal base system is a major deterrent to resource development, according to developers and utilities.
- There will have to be a rate case in 2005 for the rate period beginning Oct 2006. That rate case would apply to both existing contracts and new contracts. Absent contractual means of defining Bonneville's role in acquiring additional resources, there may be the ability to implement cost-based tiered rates in this rate case that would have much the same effect.
- If customers do support new long-term contracts beginning in FY 2007, new contracts will have to be negotiated in the 2004-2006 time frame. The Regional Dialog and subsequent Bonneville record of decision will have to be definitive about at least the range of issue noted on the Map (upper left).
- If customers are unwilling to surrender their existing contracts, we believe it will be important to negotiate "umbrella contracts" that condition the new long-term contracts that would begin post FY 2011. The alternative would be to rely on the "staying power" of the BPA policy and the Council's plan coming out of the Regional Dialogue. History suggests this would not be a good idea. These umbrella contracts could pin down time-critical issues, like how Bonneville will accommodate loads above the capability of the bases system, while leaving complete resolution of other issues for the later contract negotiations.

I hope this makes some sense. The next step will be consultations of members of the Power Committee and Bonneville management with representative of important interests to help further focus the Regional Dialogue on the most important issues.

# Map of Alternative Routes to Bonneville's Future Role

