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November 12, 2003

## MEMORANDUM

**TO:** Council Members

**FROM:** Dick Watson

**SUBJECT:** Report of Panel of Customer Representatives on the Status of the Joint Customer Proposal

At the last Council meeting, the Council approved sending a letter to interested parties in the region indicating the Council's intent to resume the Regional Dialogue on the Future Role of Bonneville in Power Supply. As a first step, the Council asked Bonneville's customers and other parties to review the original Joint Customer Proposal and identify those parts of the proposal on which there is still agreement as well as any new or unresolved issues. The Council also urged that they consider a set of proposed principles (attached) that reflect 1) the Council's understanding of changed circumstances; 2) the perspectives expressed during the recent discussions; and 3) the Council's review of the original Joint Customer Proposal and its subsequent December 2002 recommendations on the future role of Bonneville.

The Customers have been meeting to review the Joint Customer proposal as requested. They have also been working on a set of principles. Several of the customer representatives will be reporting to the Council on this work. They will include Scott Brattebo, PacifiCorp; Jeff Schlect, Avista; John Saven, Northwest Requirements Utilities (by Phone); and Terry Mundorf, Western Public Agency Group.

Attachment

## ***Proposed Council Principles for the Future Role of Bonneville in Power Supply***

- The goal should be long-term contracts (20 years) both to protect the system from interventions from outside the region and to reduce uncertainty for both the customers and Bonneville.
- Bonneville's primary role, in addition to transmission, should be managing the operation and marketing the output of the Federal Columbia River Power System. The FCRPS is a multipurpose public resource and Bonneville has a record of real expertise in its operation and marketing.
- Bonneville's role in providing power beyond the capability of the federal base system should be limited to bi-lateral contracts or rate mechanisms that align the benefits and costs. This would limit Bonneville's exposure to market risks and reduce the uncertainty regarding who will be acquiring additional resources thereby reducing an impediment to resource development.
- Bonneville's role should be limited contractually. Although most customers' contracts run through 2011, these changes need to be enacted as soon as possible so as to protect the regional resource from outside interference and clarify the outlook for resource development
- Customer agreement to long-term contracts will require at minimum that Bonneville: 1) provide customers and others greater openness regarding their costs, the factors driving those costs and the decisions affecting them BEFORE decisions are made; 2) implement cost-reducing process improvements; and 3) rebuild trust with the customers and others that Bonneville is a good business partner.
- Revising Bonneville's role in acquiring and pricing the output of additional resources will require an allocation of the federal base system resources and benefits. Any allocation method for the FBS should be equitable and consistent with federal law while creating a broad constituency for Bonneville.
- A significant amount of the system should be offered as a "Slice" product . The slice product effectively distributes hydro risk and, by virtue of more diverse decision-making, should reduce the impact of hydro variability on the market.
- Benefits should be provided for the residential and small farm customers of the region's investor-owned utilities in a way which is judged to be equitable by the parties and that is clear and transparent and not subject to manipulation by any of the parties.
- The question of service to the DSI's must be addressed. If power is made available to DSIs, the amount and term should be limited and contracts should be structured to allow Bonneville to capture benefits of DSI load interruptibility and provision of reserves. The smelters should be encouraged to reduce dependence on Bonneville power in the long-term.
- Any solution must contain a mechanism for ensuring continued regional development of cost-effective conservation, as determined through the Council's plans. While limiting Bonneville's role to develop new power supplies to bilateral arrangements with customers is a major step in the right direction, it is not sufficient to ensure the development of cost-effective conservation given the disincentives to utility investment. Reliance on local implementation is appropriate so long as there is a focus on cost-

effectiveness and accountability and a backup mechanism is included to ensure that conservation is implemented. A direct Bonneville role in implementation is appropriate where there are economies of scale or other benefits from Bonneville's direct involvement.

- Similarly, a mechanism is required for ensuring that cost-effective renewable and high efficiency resources are developed. In particular, the ability of the hydro system to support the development of intermittent renewable resources, through the flexibility of the hydro system, should not be unduly impaired.
- Bonneville's ability to implement its fish and wildlife obligations must not be impaired.