

Melinda S. Eden
Chair
Oregon

Joan M. Dukes
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Frank L. Cassidy Jr.
"Larry"
Washington

Tom Karier
Washington



Jim Kempton
Vice-Chair
Idaho

Judi Danielson
Idaho

Bruce A. Measure
Montana

Rhonda Whiting
Montana

September 28, 2005

MEMORANDUM

TO: Council Members

FROM: Terry Morlan

SUBJECT: Regional Dialogue

At the Council meeting in Eugene I will give the Council a brief report on progress in the Regional Dialogue on the future role of Bonneville. The process has started with meetings of the Principals Management Group and the Technical Group. An intensive process is scheduled with the Technical Group meeting twice a week and the Principals Management Group meeting at least once a month for the next three months.

Power Committee members have been invited to participate in the Principals Management Group and Tom Karier and Joan Dukes attended the first meeting. I have been appointed to represent the Council from the regional perspective at the Technical Group meetings, but individual Council state power staff will also attend to represent specific state interests.

A background memorandum on the basic reasons for a change in Bonneville's role is attached. In addition, I have prepared side-by-side comparisons of the Council's and Bonneville's goals and recommendations for the Regional Dialogue. The Power Committee will go over these materials and they are available in the Power Committee packet if other Council members would like to look at them.

As the discussions progress the Council may want to discuss specific issues and prepare positions to communicate to the Regional Dialogue process.

Attachment

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September 27, 2005

MEMORANDUM

TO: Council Members

FROM: Terry Morlan

SUBJECT: Regional Dialogue Background

The Northwest Power Act got a lot of things right; the inclusion of conservation as a resource in regional electricity planning, sharing the benefits of the Federal Columbia River Power System with customers of investor-owned utilities, the clarification of Bonneville's environmental and fish and wildlife responsibilities, and the involvement of the public in decision making for the regional power system are all examples of this.

However, the vision of Bonneville as the regional developer of resources to meet growing regional electricity needs has not worked. Originally intended to spread the risk of large power plant development, the Act instead put Bonneville in the position of bearing the risk of poor resource decisions by utilities. Although investor-owned utilities have never relied on Bonneville to meet their growing energy needs, public utilities have a right to Bonneville power, but no requirement that they stay with Bonneville. When some customers left Bonneville for cheap wholesale market power in the late 1990s and then came back when market prices increased in 2001, buying the energy needed to meet that increased load caused the largest increase in Bonneville's rates since the WPPSS fiasco of the late 1970s. In addition, melding the costs of new resources into Bonneville's overall costs and rates, through net billing or the residential exchange, dilutes the incentive for utilities to pursue cost-effective conservation and other efficient resources. For example, all private and public utilities have the right to exchange their higher costs for Bonneville's lower costs through the Residential Exchange. Thus the costs of a utility's growing load, or the risk of bad decisions, can be passed to Bonneville and spread among all of its customers.

There has been substantial agreement in the region for 10 years that Bonneville's role needs to change from that envisioned in the Act. The basic idea of limiting Bonneville's role to marketing the existing Federal Base Resources to public utilities has been generally agreed to in the region since the Comprehensive Review of the Regional Power System in 1996. There is also agreement that Bonneville should only acquire additional resources on a bilateral basis and that it should charge the incremental cost of additional resources to those utilities request them from Bonneville. In spite of this agreement, the region has not succeeded in implementing the

change. The Council's goal of aligning the cost and benefits of the power system and Bonneville's goal of reducing risk and increasing probability of U.S. Treasury repayment are addressing this problem. Bonneville formally agreed to this change in its role in its February 2005 record of decision on *Bonneville Power Administration's Policy for Power Supply Role for Fiscal Years 2007-2011*, and the Regional Dialogue is the process for trying to implement the changes.

This is not an easy change. At its heart, the regional dialogue is about changing Bonneville's role in a way that is fundamentally at odds with a central vision of the Power Act and finding a way to do it within the provisions of the Power Act. The purpose of the change is nothing less than preserving the benefits of the Federal Columbia River Power System for the region. The success of this new vision relies on utilities unanimously agreeing to new contracts that forfeit some of their rights under the Act, otherwise some may take legal recourse and the deal would fall apart. The alternative solution, which no one is inclined to take, is to revise the Act. It will take strong leadership to move the regional dialogue forward. It is my hope that the Council can provide some of that leadership and help keep the larger goal in view when the discussion inevitably get bogged down in negotiating the details of these complicated changes.

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