

Melinda S. Eden  
Chair  
Oregon

Joan M. Dukes  
Oregon

Frank L. Cassidy Jr.  
"Larry"  
Washington

Tom Karier  
Washington



Jim Kempton  
Vice-Chair  
Idaho

Judi Danielson  
Idaho

Bruce A. Measure  
Montana

Rhonda Whiting  
Montana

November 1, 2005

## MEMORANDUM

**TO:** Power Committee

**FROM:** Terry Morlan

**SUBJECT:** Briefing on Status of the Regional Dialogue Discussions

I will brief the Power Committee on the status of the Regional Dialogue discussions at the November meeting. Since the Principals Management Group (PMG) meeting on October 20 the Technical Group has met twice. However, it will meet four more times between the packet date and the actual Council meeting so hopefully there will be more to report at the Power Committee meeting than I can include in this packet.

The first Technical Group meeting after the PMG meeting continued the discussion of cost control. Agreement was reached that a Cost Management Group (CMG) would be organized and managed by Bonneville customers and other interested stakeholders. I view this as a good outcome since the alternative was a Bonneville-customer-only CMG. A committee was established to structure the CMG membership, its operations, and decision-making. The committee will report back to the Technical Group at its November 3 meeting.

One issue for the Council is whether we want to be represented on the Cost Management Group. My recommendation would be that the Council choose not to participate directly in the CMG. It will involve a substantial amount of staff time and the Council's influence may be better applied through other channels if we have substantial issues. We have generally avoided involvement in Bonneville rate cases and this seems to fall into a similar category. We are not well staffed to micromanage Bonneville's costs and programs.

A number of ideas were discussed about how to proceed if the CMG and Bonneville disagree on some elements of costs. These efforts were intended to put some teeth into the CMG's opinions. One proposal was to bring cost issues where there was disagreement into the rate case. As you may remember, cost issues are not addressed currently in Bonneville's rate cases, only how the costs are recovered. Another type of alternative was to submit disagreements to arbitration. Another option was to ask the delegation to resolve disputes. There are difficult constitutional issues involved with limitations on Bonneville decision-making and in allowing the legislative branch to rule over an administrative branch decision. No conclusion was reached.

The topic of dispute resolution was scheduled for the October 27 meeting, but we did not reach it. It will be addressed at the November 4<sup>th</sup> meeting.

Several meetings are scheduled to discuss the topic area of investor-owned utility (IOU) and public utility residential exchange and service to new public utilities. We began the discussion of the IOU exchange on October 28. Bonneville explained their concept paper proposals. One is a variable settlement amount that varies between a floor of \$100 million a year and a ceiling of \$300 million depending on the difference between a forward market price of power and Bonneville's lowest cost-based preference power rate. This proposal is very similar to the current IOU settlement, which is under litigation. The other was a fixed amount of \$250 million to be shared among IOUs based on the differences between their average system costs and the cost-based preference power rate. It was generally agreed that the first option better aligns the interests of IOUs and Bonneville's public customers. The IOUs are proposing an approach very similar to Bonneville's first option, but with a ceiling of \$350 million. The PPC made an alternative proposal that is a modification of the fixed settlement approach. It would allow the settlement amount to change as the cost-based PF rate changes. For example, if the PF rate increased 10 percent the IOU benefits would decline 10 percent. The IOUs were concerned that this would result in a steady erosion of the IOU benefits as Bonneville's costs increase over time. These proposals and their many nuances will be further discussed in future Technical Group meetings.

In the absence of a settlement approach for the IOU exchange, Bonneville proposes returning to the provisions in the Act where a method for determining IOU average system costs is developed and the financial exchange benefit is based on the difference between the IOU's average system cost and Bonneville's preference rates (after adjustment for the 7b2 provisions in the Act). This alternative has proven expensive and complex to administer in the past and has been very divisive for the region.

See the memorandum in the full Council packet for a more general assessment of progress and issues.

---

q:\tm\council mtgs\nov 05\regional dialogue p4.doc