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## MEMORANDUM

**TO:** Terry Morlan

**FROM:** Power Committee

**SUBJECT:** Summary of February 24, 2006 Regional Dialogue Technical Group Meeting

The technical workgroup for the Regional Dialogue met for what is expected to be the last time before Bonneville releases its draft policy in April. In this memorandum I attempt to summarize the status of the various issues based on the discussions at the meeting.

My general assessment is that little progress has been made during the process hiatus toward further agreements among the participants. In some cases, tentative agreements that had been reached in previous meetings had been lost. Because there was little progress to report, the meeting of the Principles Management Group scheduled for February 27 was cancelled. Offline discussions were continuing and some held out hope for further agreements in the next week or two.

Bonneville was quite clear that it does not intend to further extend its schedule for releasing a draft policy. It has been the agency's position throughout the process that if the participants and Bonneville can't reach agreement, Bonneville will develop the draft policy using their original proposal with modifications reached during technical discussions.

Below is a summary of the status of each of the major areas in the Regional Dialogue.

**Service to Public Utilities:** A revised proposal provides an increased ability for utilities to "undeclare" their own resources in the event of load loss if the utility could not otherwise access all of its HWM (high water mark) power. However, the proposal provided a one-time calculation of the number of megawatts that could be undeclared, which wasn't what the public utilities thought they had negotiated. There was no change in the decrementing policy for conservation that Bonneville pays for. The PPC "broom closet" group is back in action and hoped to have an agreement about allocation this week. The group is looking at three alternatives that focus on a "true-up" of shares in 2011.

**Investor-Owned Utility Benefits:** There was little of substance reported on this issue. The ongoing talks between public utilities and IOUs were characterized as settlement talks. My impression was that little progress had been made to date.

**Slice Products:** The Bonneville offer of slice contracts and their characteristics are on a separate track from the Regional Dialogue. There is no settlement yet on this issue, but the expectation is that Bonneville will offer between 1600 and 2000 megawatts for slice contracts and that the flexibility for slice utilities to exercise their rights would be somewhat reduced.

**Transfer Service:** Transfer service is also on a separate track. It is apparently resolved but the details were difficult to discern from the discussion. In general, Bonneville will continue to pay for transmission of non-federal power to public utilities, but a cap on the amount would be applied.

**Transmission Services:** This is also on a new separate track. The public customers were surprised to find out that according to the BPA TBL, the Regional Dialogue contracts will require utilities that have been Bonneville customers for decades to go to the bottom on the transmission request queue under some circumstances. An entirely new workgroup will be formed to deal with this issue.

**DSI Benefits:** This is one area where an apparent agreement became less certain. Bonneville is still leaning toward their original proposal of a limited financial benefit in terms of dollars. However, they are asking for additional analysis. Part of the analysis is a study of what the regional economic impact would be of allocating dollars to the DSIs. Bonneville has approached the Council about helping with this analysis because it is similar to the analysis we have done of the Administration budget proposals. Alcoa very much prefers actual megawatts and ideally would like to be served by customer utilities of Bonneville. Bonneville is now considering the option of providing actual power although there seemed to be agreement earlier that there would only be financial benefits.

**Conservation:** There is still a lot of dissatisfaction with the decrementing requirements in the Bonneville Conservation Acquisition Agreements (CAA) program. The real issue may be access to HWM power for partial requirements customers and the concern that Bonneville's payments for conservation achieved under the program are too small. The Council has drafted a letter to Steve Wright expressing its concern that Bonneville's current CAA program is not providing an incentive to acquire conservation and that Bonneville is likely to fail to meet its conservation target as a result.

**Renewables:** This is another area where agreements that some thought had been reached were not accepted by Bonneville. Bonneville committed to acquiring its share of renewables in the Council's plan. However, it was unclear how Bonneville would use the \$21 million it has allocated each year. Bonneville representatives were cautious about actual acquisition, saying that the agency has to show need for the resources. Bonneville also backed away from the idea of serving as an anchor tenant for early development of potential Tier 2 renewables. In addition, Bonneville could not accept a commitment for stability of integration costs except during the two-year rate periods.

**Cost Control:** The subgroup of the policy group that was tasked to work out the details of the cost control process found itself unable to bridge the gap between those, especially public power, that had developed the idea of a dedicated, permanent cost control oversight group with allocated stakeholder seats, and those, primarily from the public interest community, who wanted a beefed up PFR, an open membership and no referral to a non-binding third party. Marilyn Showalter, who was asked to chair this subgroup, reported to the technical group that whereas before there was one proposal that needed fine-tuning, there are now two. The primary problem for the customers is still that Bonneville can't give up its authority to make program and cost decisions. Given that, the customers are struggling for some assurance of cost control in exchange for 20-year contracts.

**Dispute Resolution:** There was little progress to report on this issue. Bonneville has not yet specified exactly which areas could and which areas could not be subject to dispute resolution.