



Northwest Public Power Association

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**Government Relations Committee Meeting  
Crowne Plaza Billings  
Billings, MT  
Sept. 7, 2006**

**Minutes of Meeting**

**A. ATTENDING**

Ron Benfield, Central Lincoln PUD  
Ralph Carmona, SMUD  
Larry Descheemaeker, Fergus Electric Co-op  
Jim Feider, Redding Electric Utility  
Ken Gates, Cordova Electric  
Ed Gossett, Kootenai Electric  
Tim Gregori, Southern Montana G&T  
Byron Hanke, Clark Public Utilities  
Neal Harth, Wasco Electric  
Ron Hatfield, Pacific County PUD  
Terry Holzer, Yellowstone Valley Electric  
Jim Hubenthal, Lewis Co. PUD  
Meera Kohler, Alaska Village Electric Cooperative  
Dwight Langer, N. Wasco PUD  
Russ Leslie, Nelson Hydro  
George Litzenberger, Springfield Utility Board  
Nate Narrance, Inland Power & Light  
Bill Nordmark, Golden Valley Electric  
Scott Odegard, Sun River Electric Co-op  
Bruce Pilling, Emerald PUD  
Paul Rogers, Kittitas County PUD  
Dave Sabala, Douglas Electric Co-op  
Walter Sapp, Kodiak Electric  
Bob Speckman, Salem Electric  
Bob Titus, City of Ellensburg  
Bob Walker, Beartooth Electric  
Ken Weiss, Clearwater Power  
Ralph Williams, United Electric Co-op  
Bob Wittenberg, Skamania PUD

Al Zepp, NCPA

NWPPA Staff

Will Lutgen, Executive Director

Bryan Case, Deputy Executive Director

Debbie Kuraspediani, Communication Director

Others in Attendance

Amelia Jenkins, Western Governors Association

Scott Lindsay, NWPPA GRC Consultant

Karen Price, Morgan Meguire — Via Conference Call

GRC chair Tim Gregori called the meeting to order at 8:03 a.m. on Thursday, Sept. 7, 2006. The meeting was held at the Crowne Plaza Billings in Billings, Montana. A quorum of the GRC committee was present.

**B. CONSENT AGENDA**

Walter Sapp moved to approve the Minutes from the May 23, 2006 GRC meeting as prepared with the following changes: On page 9 of 11 Bruce Pilling's utility name should be corrected to read Emerald PUD. With a second the motion to approve the minutes as amended was approved with none opposed.

**C. WASHINGTON DC UPDATE**

Karen Price of Morgan Meguire provided the following Washington DC update to committee via conference call:

- We are heading into the homestretch of the 109<sup>th</sup> Congress now, and with the elections in sight, we are not expecting much of substance to actually be accomplished before they adjourn at the end of the month.
- Generally speaking, there was a lot of activity in Congress this year on energy matters, as Senators and Representatives tried to think of ways to show their constituents that they "shared their pain" about high gasoline and natural gas prices, and during the unusually hot summer, rising electricity prices. But by the time Congress adjourned for its August recess last month, very little of substance had actually been accomplished.
- Price focused on two issues that greatly affect the region and that NWPPA has been engaged in at the federal level: 1) California ISO's market redesign plan and 2) increased security costs at federal dams.

## 1) MRTU

- By now, most utilities have at least heard the reference to the Cal ISO's MRTU proposal.
- Jim Feider is on the GRC agenda to speak in more detail about this, but let me try to briefly explain what it is and how it affects the West and Northwest and what NWPPA and others have been doing over the last few months to protect the region.
- Essentially, in February the California ISO filed an 8,000 page market redesign proposal, called the Market Redesign and Technology Upgrade or "MRTU", with the Federal Energy Regulatory Commission (FERC) and it is now awaiting Commission action.
- Originally called Market Design 2002, or MD 02, this MRTU plan actually began about 4 years ago, following the 2000-2001 energy crisis, and has culminated in the latest proposal.
- The core elements of MRTU are identical to Standard Market Design (SMD) features employed in "organized" markets in the East – where the results in most instances have been higher prices for consumers, much greater price volatility and few, if any, demonstrated benefits to consumers.
- Specifically, MRTU would implement market mechanisms that include: locational marginal pricing for supply and load; centralized, bid-based dispatch of generation; and financial rights in lieu of physical rights on the transmission system.
- MRTU also moves away from long-term bilateral contracts – the one utility practice that most market participants agree is essential to prevent a repeat of the last debacle. In addition, MRTU will make it difficult to secure the long-term transmission rights that Congress directed FERC to ensure in the Energy Policy Act of 2005.
- MD02 sounds a lot like SMD – the proposal vacated by the FERC in 2005 -- and that's no coincidence.
- As we learned all too well, during the 2000-2001 Western energy crisis, California's energy markets do not function in isolation but are part of the

larger Western market. However, the Cal ISO's MRTU operating rules and pricing systems will differ from all others in the Western Interconnect and could, therefore, pose serious threats to the reliability and stability of operations and energy markets throughout the West.

- To make matters worse, these “seams issues” have simply not been resolved.
- While the technical folks in the West – including the Control Area Coalition, Bonneville Power Administration, and WestConnect – have been on top of this and filed written comments at FERC expressing concerns about MRTU, until recently, it has not risen to the more political level because, frankly, many of us were consumed with the Grid West/TIG debate.
- However, in late spring, NWPPA and its California members became convinced that a political push was needed. Some of this came out of the fear that retiring FERC Commissioner Brownell, the point person on this order whose term expired in July, would use this as her “swan song” and push FERC to bless the proposal.
- So, in May, NWPPA and a number of other public power organizations formed a coalition to raise awareness about the dangers of the MRTU plan and get Members of Congress and the press involved.
- Ironically, what also helped trigger the region's involvement was the head of the ISO himself. On May 4, an article appeared in *Restructuring Today* in which CAISO's CEO, Yakout Mansour, was quoted as saying that the California ISO will be the *de facto* market for the entire West. He also characterized the bi-lateral markets that currently exist in the West as equivalent to “talking about skiing in Saudi Arabia.”
- These comments sparked outrage from public power trade heads in the Northwest and West.
- So, on June 1, NWPPA and seven other public power organizations in the Northwest and West sent a strongly worded letter to Mr. Mansour, objecting to his press comments and highlighting the significant advances in building infrastructure, ensuring reliability and developing markets the West has made through collaborative efforts.
- The public power group met at APPA's Annual Meeting in Chicago the following week to receive an “MRTU tutorial” from California public power

attorneys, which further persuaded them that the MRTU proposal was a critical issue, worthy of taking it to Congress.

- So, in late June, representatives from many of the signing organizations, including NWPPA's Will Lutgen, went to Capitol Hill to meet with Senators and staff from Washington, Oregon, Montana, Idaho, Wyoming, Arizona, Utah, New Mexico, Nevada and California.
- As a result of those meetings, on June 26, 12 Senators (six Republicans and six Democrats) sent a letter to FERC urging the Commission to "thoughtfully consider the impacts not only to California consumers, but to those throughout the West." The letter was spearheaded by Sen. Gordon Smith (R-OR) and co-signed by Sens. Conrad Burns (R-MT), Max Baucus (D-MT), Jon Kyl (R-AZ), John McCain (R-AZ), Craig Thomas (R-WY), John Ensign (R-NV), Harry Reid (D-NV), Patty Murray (D-WA), Maria Cantwell (D-WA), Ron Wyden (D-OR) and Barbara Boxer (D-CA).
- The Senate letter received excellent trade press coverage, prompting calls from FERC and others to members of the public power coalition.
- This letter was turned around in about two days, so about a month later, Sens. Hatch and Bennett of Utah, who were unable to get approval that quickly, sent a similar letter.
- And fortunately, the political strategy worked. The letter caught the attention of FERC and it did not rule in on the order at its July meeting.
- However, the battle is far from over. Despite the fact that there are three new FERC commissioners from the West on the commission, we have received indications that FERC Chairman Kelliher might act on the order at its meeting later in September.
- In response to the Senate letters, the CAISO and FERC sent letters essentially saying that they have been working on this for four plus years, it's not something new and have developed a plan that is consistent with the market designs in place and effective in the Eastern markets.
- To help with the effort, APPA, sensing the growing opposition and concern with MRTU, has jumped into the fray to lend support and resources to the effort. APPA's Executive Committee has approved this increased involvement as part of the Electric Market Reform Initiative.

- On August 14, APPA also filed a motion to intervene “out of time” in the MRTU docket at FERC, citing concern over the lack of available long-term transmission rights (LTTRs).
- In addition, in August APPA convened an MRTU working group – using the Western coalition as the foundation and adding a few people from other Western APPA members and members of the APPA Advisory Committee, and all Western members of APPA’s Policy Makers Council – to discuss additional steps to first delay, and ultimately prevent, implementation MRTU.
- The group decided that it is critical to continue to keep the political pressure on at FERC, so they have been pursuing two additional letters on the Hill. A group of the DC lobbyists, including Morgan Meguire, APPA staff, and others, are working to gain support for:
  - A second, stronger letter (which would cite specific examples of issues not yet fully considered) from the 14 Senators who wrote to FERC, responding to the reply they got from the Commission; and
  - A letter from House members expressing their concern over Western impacts, asking for caution, and citing some specific concerns.
- As a starting point in the House, Morgan Meguire has met with staff to the three co-chairs of the NW Energy Caucus, Reps. Doc Hastings, Peter DeFazio and Greg Walden, over the last two weeks regarding our concerns and asked if they would champion a House letter to FERC.
- Morgan Meguire has received word late last week that they are very interested in doing so and we are working with them to finalize that letter for circulation among the delegation. However, we would also like this to be a West-wide letter, so we are working on getting support from other Western offices (like UT and AZ).
- On the Senate-side, Morgan Meguire met with Sen. Smith’s staff last week and she indicated that her boss would be inclined to champion a second, more detailed letter. In the meantime, Morgan Meguire is circling back and meeting with the original signatories to the June letter to update them on the latest developments and to gin up support for this effort.
- Price was hopeful that both letters will be finalized and sent to FERC prior to their Sept. 21 meeting.

- Morgan Meguire thinks the only chance to stop MRTU is to make it politically uncomfortable for FERC; we therefore need to do it before Congress adjourns.

## **2) Security Costs**

- Over the past three years or so, preference customers have been fighting efforts by the Bureau of Reclamation to make a big chunk (more than 90%) of the increased, post-9/11 security costs at federal dams, the responsibility of the power customers. Given the national security issues at stake, NWPPA and others fundamentally view this as a *federal* responsibility.
- Currently, the Bureau is spending about \$50 million on enhanced security costs west-wide per year and is trying to recover about half of that from water and power customers, mostly from power.
- For example, in FY 06 the Bureau sought to recover almost \$5 million from BPA customers for enhanced security at Grand Coulee. It is seeking a similar amount in FY 07 and there is no authorization cap on the program.
- While these numbers might not seem that dramatic, public power in the West is *still* recovering from the energy crisis of 2000-2001 and has been working hard to control Bonneville Power Administration's (BPA's) costs. Bonneville's rates are affected by many factors, including drought, fish and wildlife obligations and contracts with the direct service industries. For that reason, security measures at Grand Coulee Dam, which also affect rates, should receive the same close congressional scrutiny and be fair to our ratepayers.
- In an effort to end this ongoing battle with the Bureau, preference customers have decided that they would accept responsibility for some of the costs, but that the reimbursable costs should be capped so they don't continue to escalate indefinitely.
- Specifically, Morgan Meguire is now asking Congress to expressly authorize *through legislation* active congressional oversight and a cap on reimbursable costs for water and power customers.
- To that end, the House Resources Water and Power Subcommittee held a hearing on the Bureau of Reclamation's security costs program in June and Will Lutgen testified on behalf of the Association membership in support of such a proposal.

- Since then, customers have been working with Subcommittee staff on legislation that would amend the 1978 *Safety of Dams Act* to establish that water and power customers will be responsible for 15 percent of Bureau of Reclamation site security costs.
- As the GRC meets, the Subcommittee is holding a legislative hearing on the bill (HR 6029), sponsored by Subcommittee Chairman George Radanovich (R-CA), Ranking Member Grace Napolitano (D-CA) and Water and Power Vice-Chair Cathy McMorris (R-WA).
- From the Northwest, Pend Oreille PUD Commissioner Dan Peterson is testifying in support of the bill on behalf of the Washington PUD Association. Other witnesses testifying in support of the bill include Grant Ward of Arizona's Electrical District #3; and Leslie James, Executive Director of the Colorado River Electrical Distributors Association.
- A Subcommittee markup session is tentatively planned on various pending bills next week, so it is possible that the Security bill may be eligible to move at that time, should full Committee Chairman Richard Pombo (R-CA) and Subcommittee Chairman Radanovich support doing so.

While there are few legislative days remaining, Morgan Meguire hopes to get the bill enacted as part of an end-of-Congress package of water and power bills the House and Senate often pass at the last minute.

#### **D. REGIONAL DIALOGUE**

Will Lutgen outlined key issues in the regional dialogue and asked GRC members for additional comments on their utilities thoughts on the process.

Tim Gregori asked staff to come back with a summary of the regional dialogue issues to share at the next GRC meeting in March.

Bob Titus asked staff to collect position papers from WAPEG, NRU, PPC, WPUDA, etc. to share with the GRC at the March meeting.

Will Lutgen will add the regional dialogue to the next trade heads meeting agenda.

Jim Feider suggested that NWPPA take more of a role as a facilitator of a coalition of West-wide utilities in support of regional dialogue.

Dwight Langer suggested that trade heads can provide valuable guidance and information on OMB and should be asked to do so.

Ralph Williams asked that NWPPA stay involved in the process but keep members informed through forums like the BPA Allocation Conference throughout the year.

## **E. RESOLUTIONS**

### **Resolution 06-08:**

Bruce Pilling made a motion to move resolution 06-8 to active status with the addition of the following new paragraph added to the end of the resolution:

*The Northwest Public Power Association believes that federal and state legislators should remove barriers and create incentives for public power to develop conservation and renewable resources. Legislators should work with local consumer-owned utilities to remove or reform rules and laws that hinder their development or acquisition of conservation and renewable resources; and create equivalent levels and types of tax incentives that are available to private utilities.*

With a second the motion was carried with none opposed.

The GRC was asked for a volunteer committee to work with Scott Lindsay on language amendments to resolution 06-08. The volunteer committee members are:

Bob Titus  
Jim Feider  
Bob Speckman  
Bruce Pilling

Meera Kohler suggested the volunteer group work with Scott on language changes and to use the quick poll process to get a modified resolution passed quickly with the membership.

Meera Kohler moved to make a spelling correction to line 19 (complement) and changes in word order to lines 42 & 43:

*conservation and renewable resources; and create levels and types of tax incentives equivalent to those available to private utilities.*

With a second the motion carried with Nate Narrance opposed.

### **Resolution 06-14:**

Ed Gossett reviewed the purpose of the original resolution. Ed made a motion to move resolution 06-14 to active status. With a second the motion carried with none opposed.

Jim Feider agreed to offer this resolution up to the Forrest Service at the "Listening Session" meeting in California the week of September 11. The volunteer committee will look at possible additional wording changes to this resolution.

#### **F. WGA CLEAN AND DIVERSIFIED ENERGY INITIATIVE REPORT**

The Western Governors Association (WGA) representative Amelia Jenkins provided a briefing on the Clean and Diversified Energy Initiative. Amelia invited and encouraged NWPPA members to participate in the WGA.

Nate Narrance moved to accept Amelia's invitation for NWPPA to take part in the Western Governors Association and for NWPPA staff to determine how to best represent public power in the WGA. This request will be brought before the full Board for approval. With a second from Bob Titus the motion carried with none opposed. The GRC encouraged NWPPA staff to participate in upcoming December WGA meeting.

Scott Lindsay was asked to e-mail out instructions to GRC members on how and who to contact at WGA with questions. In response to this request Lindsay asked that initially all questions funnel through him or Morgan Meguire and as we build a relationship with the WGA down the road members can directly contact them.

#### **G. MARKET REDESIGN AND TECHNOLOGY UPGRADE (MRTU) REPORT**

Jim Feider reviewed the Market Redesign and Technology Upgrade (MRTU). Feider indicated that we are anxiously waiting for FERC's decision soon. The ISO has launched what appears to be a separate outreach recently so they are still committed to going forward. This issue was originally brought to NWPPA and the GRC's attention by Ralph Carmona from Sacramento Municipal Utility District. This is an example of the trade heads acting together on behalf of public power. All west-wide trade heads have called on the senators offices in D.C. as a sign of consensus among public power. Senators were impressed to see that this was a west-wide effort and public power in the West was united.

#### **H. SECURITY COSTS HEARING IN HOUSE RESOURCES COMMITTEE**

Will Lutgen updated the GRC on the recent Washington D.C. visitation with NCPA and additional legislation on this topic. Both Jim Feider and Will Lutgen testified at the recent security cost hearing in Washington D.C.

Al Zepp also reported to the GRC on outcomes on the hearing earlier that morning. All witnesses that testified that morning in D.C. supported the legislation. The acting minister really testified that the government did not have a position on the legislation.

## **I. STATE REPORTS**

**Washington** — Bob Titus reported portfolio standards is likely to pass and there is pressure on utilities to conform to it. There is likely to be legislation on how utilities will integrate small generation projects. This will involve both net metering and the interconnection side.

**Oregon** — Neal Harth reported that Oregon was talking about extending the mandate for renewables. Harth's experience is mandates don't work. You need to have a goal and work with the legislature to propose language and then propose legislation that will make sense. Mandates aren't common sense. Ron Benfield reported that the Oregon PUD Association met earlier this week and is concerned with revise Oregon state statute 261.348 (to exempt renewable resources from the existing cost effective requirement). The PUD association is going to try and take a pro-active role in this early process and participate in discussions early on and discourage those kinds of issues that are going to force us to do those kinds of issues that we don't want to do.

**California** — Jim Feider reported that the California legislature passed four bills that are going to significantly impact utilities in the state. The most significant is a bill that will provide a rollback on greenhouse gases initially to 1990 levels. The California Air Resources Board will be the governing agency setting regulations in place and start implementing reductions in 2012. By 2020 they want to get back to 1990 levels. That legislation was fairly generic and may require a fair amount of follow-up trailer bills. The governor is taking quite the accolades on leading the charge on global warming. The second bill has to do with the acceleration of renewable portfolio standards called SB107. The target rate is 20 percent by 2017. The Solar Bill (SB1) sets forth an objective of getting 3,000 megawatts of solar over the next ten years. This is about a \$10 million dollar obligation spread over ten years. There was another bill passed that was pushed by the National Defense Resource Council on energy efficiency. The California Energy Commission set targets on energy efficiency. A bill called SP 1368 (No Coal Bill) was an attempt to stimulate building non-coal electric resources for required power supply. It was going to require any California utility to go through

a “mother may I” process with the California Energy Commission before signing a contract for longer than five years. California public power is still holding up some hope for a veto from the governor. The California Chamber of Commerce and the business community at large are very concerned and somewhat upset over the governor’s potential raise in the cost to do business and driving out business. The governor at least supports the climate change committee.

**Idaho** — Ralph Williams reported that Idaho is in between governors right now. Idaho lost Gov. Kempthorne to the Secretary of the Interior and now has the lieutenant governor in power and he’ll be there for the next six months or so. He has announced that Idaho would not take part in any cap & trade program. ICUA is working with the lieutenant governor to educate legislators on energy issues. There is not adequate transmission coming into the state and right now they only generate about 40 percent of the power that is used in the state. Sixty percent of Idaho’s power is imported from other states.

Ed Gossett reported that the big issue right now is a residential exchange issue. The regional dialogue is another discussion item that the Idaho statewide will be addressing. Gossett also reiterated that transmission is a very serious problem for the state of Idaho.

**Alaska** — Meera Kohler reported that the Alaska governor Murkowski got the worse showing of any sitting governor in a re-election. The FBI also started swarming all over the offices of seven Alaska legislators to look at substantial political contributions they were receiving. Alaska has also had a couple of more turnovers in the primaries where incumbent’s seats are up for grabs. Kohler said what we are seeing in Alaska is a climate of change.

**Montana** — Terry Holzer reported that Montana reaffirmed a 15 percent mandate of renewables and that Northwestern Energy has merged with Babcock & Brown and is coming out of bankruptcy. There are transmission problems for wind generation and more wind in Montana means more transmission problems. There were 90 energy bills introduced in the last session.

Gregori also reported that the governor appointed a climate change advisory committee to look at the carbon tax. There may even be a run at some sort of a carbon tax in this session of the legislature. This will be interesting to watch.

## **J. OTHER BUSINESS**

**Bill to Exclude Tax Exempt Financing of Electric Transmission Facilities** — Ed Gossett discussed a bill being discussed by Idaho Consumer-Owned Utilities Association (ICUA) to exclude tax-exempt financing of electric transmission

facilities from the private business use test. The bill is sponsored by Sen. Crapo and co-sponsored by Sen. Craig from Idaho. It would allow you to have tax exempt bonding for this type of development. The bill will be submitted this next week and attached to the bill is a letter that was sent by Sen. Crapo.

Gossett made a motion for NWPPA to agree to help push this bill through the Senate and House and support this bill. Scott Lindsay indicated that NWPPA already has a resolution speaking to this issue on the private use side and so NWPPA already has a precedent for supporting this issue. With a second the motion to support this bill carried with none opposed.

Ed Gossett thanked everyone for their support of this bill.

**The Frontier Project** — Jim Feider mentioned PG &E has announced a transmission study effort through the WCC process that would look at alternative throughout northern California all the way to British Columbia. There are very broad generic alternatives: 1) an under water DC cable from San Francisco to Portland; a more realistic idea is; 2) a corridor that comes out of the northeast side of California and goes up through Nevada and through eastern Oregon and eastern Washington connecting at the Spokane area and going into British Columbia. Public power in Northern California has been studying this for over a year and PG&E beat them to the gun. He said that public power would like to partner in this effort and to stay tuned and it is early in the process. This is another transmission project with no generation. Feider was not sure who would be conducting the EIS.

#### **K. NEXT MEETING DATE AND LOCATION**

Tim Gregori announced the next GRC meeting is scheduled for March 8, 2007 at the Heathman Lodge in Vancouver, Wash. Additional information can be found on the GRC Web page.

With no further business Geroge Litzenberger moved that the meeting be adjourned at 11:15 a.m.

Respectfully submitted,



Tim Gregori, Government Relations Committee Chair

