



Northwest Public Power Association

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**Government Relations Committee (GRC) Meeting
Pan Pacific Hotel
Vancouver, B.C.
September 18, 2003**

Minutes of Meeting

A. ATTENDING

Government Relations Committee chair Robin Rego called the meeting to order at 10:05 a.m. on Thursday, September 18, 2003. The meeting was held at the Pan Pacific Hotel in Vancouver, B.C. A quorum was present and the following Committee Members and others were in attendance:

Al Aldrich, Snohomish PUD
Ron Benfield, Central Lincoln PUD
Larry Descheemaeker, Fergus Electric Cooperative
Jim Feider, Redding Electric Utility
Ken Gates, Cordova Electric
Ed Gossett, Kootenai Electric Cooperative
Linda Gott, Mason PUD No. 3
Tim Gregori, Central Montana G&T
Neal Harth, Wasco Electric
Ron Hatfield, Pacific County PUD
Jim Hubenthal, Lewis County PUD
Meera Kohler, Alaska Village Electric Co-op
Pat McGary, Clark Public Utilities
Bruce Pilling, Emerald PUD
Robin Rego, Lakeview Light & Power
Walter Sapp, Kodiak Electric
Karl Schrade, Flathead Electric
Lonny Sheffield, Western States Electric
Bob Titus, City of Ellensburg

NWPPA Staff

Bryan Case, Deputy Executive Director
Debbie Kuraspediani, Communication Director
Scott Lindsay, Government Relations Consultant

Charlie Roe, Director of Education

Others

Deborah Sliz, Morgan Meguire (By Conference Call)

B. CONSENT AGENDA

Jim Hubenthal moved to approve the following Consent Agenda item as submitted:

- Government Relations Meeting Minutes of May 20, 2003

With a second by Tim Gregori the motion to approve the Minutes passed with none opposed.

C. CALL FOR 2004 RESOLUTIONS

Scott Lindsay updated the committee on the index document provided of proposed 2004 resolutions and encouraged any members wanting to submit new resolutions or changes to existing resolutions to do so soon.

Jim Feider asked the committee to consider a new resolution seeking to designate WAPA as a federal control area. He wants to work with the committee to develop a resolution to bring back to the committee for consideration at the March meeting in Vancouver, Wash. Pat McGary also asked that SMUD be considered when working on the resolution. Scott Lindsay suggested making modifications to the SMD resolution to include MD02 in response to Jim and Pat's request for a resolution to address concerns in the California membership area.

D. WASHINGTON D.C. UPDATE

Deborah Sliz provided a timely federal legislative update to the committee via conference call. The following are highlights from her report:

- Just before the August recess, the Senate took the unusual step of putting aside the energy bill that Sen. Pete Domenici (R-NM), the Energy and Natural Resources Committee Chairman and his fellow Republicans crafted and, instead, took up and passed last year's Senate bill –which was developed by the Democratic leadership in concert with Sen. Jeff Bingaman (D-NM).
- This very odd maneuver was the product of mutual frustration between Senate Republicans and Democrats over the bill. The Senate at that time

had spent almost an entire week on the controversial electricity title of the energy bill. The Republicans wanted to finish work on the electricity title before the August recess in order to show progress on the overall bill; the Democrats wanted to slow the title down to try to force some concessions from Sen. Domenici and, probably, to make its passage less likely.

- Democrats were lining up to offer amendments; Sen. Domenici was growing increasingly frustrated. To top it all off, Majority Leader Bill Frist (R-TN) kept interrupting the debate to try to get votes on controversial judicial nominees. So both sides were accusing each other of obstructing progress on the bill and tempers were growing very thin.
- At one point, Democratic Leader Tom Daschle (D-SD) admonished Sen. Domenici and the Republican leadership about the partisan nature of the energy bill and said “If you really want to pass an energy bill, you should take up and pass last year’s bill, which had bipartisan support and passed the Senate by a vote of 88 to 11.”
- Sens. Frist and Domenici leaped at that offer and, to the surprise of their Republican colleagues and to Sen. Daschle and the Democrats, agreed to take up last year’s Senate-passed energy bill.
- By the end of the day, by unanimous consent, the Senate took up and then voted (84 to 14) to endorse last year’s bill and the Senate adjourned shortly thereafter for its month-long August recess.
- While all the energy lobbyists in town were scratching their heads, marveling at the weirdness of the situation, both Republicans and Democrats were claiming victory. The Democrats issued a press release crowing that the Republicans had passed the Democratic bill. Sen. Domenici released his own statement, saying that no matter what bill the Senate had just passed, the final energy bill—and the final electricity title—would look much more like the Domenici bill than the Democratic bill.
- Going into the August recess, most of us felt very sure that when Congress reconvened in September, the Republican leadership and the White House would make a big push to move the bill through the House/Senate conference committee as rapidly as possible, in order to send it to the President for signature before the end of the year.
- Little did we imagine in August that there would be an electricity outage affecting 50 million people in North America on August 14 to provide additional momentum to the pro-energy bill forces!

- It shouldn't surprise you to learn that the political reaction in Washington, D.C., was almost instantaneous.
- Within 24 hours, despite the fact that most congressional and administration officials were away from the Capital on vacation, leaders in the House and Senate, the FERC and the White House had all issued official statements decrying the outage and stating that the event confirmed that a new, national energy policy should be passed by Congress as rapidly as possible. They pointed to the mandatory, enforceable reliability standards as one "must pass" feature of the legislation.
- House Energy and Commerce Committee Chairman Billy Tauzin (R-LA) announced that his committee would launch an investigation and hold hearings on the outage the minute Congress returned in September and said he wanted to have a bill on the President's desk by October 1. Senate Energy Committee Chairman Pete Domenici issued a release echoing the need for passage of the bill and set Thanksgiving as the target date.
- FERC Chairman Pat Wood issued a statement championing incentives to promote transmission construction and reversing the prior Commission position to now endorse federal "backstop" authority on transmission siting.
- The Department of Energy also announced it was creating an international task force, with Canada, to study the cause of the blackout and how future recurrences could be avoided.
- All of the industry interests also leaped into action to "spin" the outage to support their legislative priorities. While all industry groups expressed support for mandatory reliability standards, they split on many of the other key issues in the electricity title.
- For example, some groups stated that the outage proved that RTOs were needed, while others took the opposite position: that the outage was worse in the areas where RTOs are up and running.
- The same thing happened over the issue of FERC's Standard Market Design (SMD) proposal: some said that de-regulation and Standard Market Design were to blame for putting pressure on a transmission grid that was not designed to serve as an electric highway for the wholesale

market. Other interests claimed the opposite: that only by moving forward with SMD could we stimulate the investment needed to reinforce and expand the grid and ensure that there would not be other blackouts.

- September 3 and 4 the House Energy and Commerce Committee held two long days of hearings on the outage, and heard from the Secretary of Energy, FERC Chairman Pat Wood, the governors of MI and OH and numerous PUC Commissions, as well as from the utility industry, think tanks, consumer advocates and others. It was apparent from the line-up and the testimony that Chairman Tauzin wanted to prove to his House colleagues that he was covering all bases with this inquiry and wanted to build support for key provisions of the House-passed electricity bill.
- The Energy Committee Democrats, however, took a different tack at the hearing. They advocated passing a “reliability only” bill immediately, rather than packaging it with the larger energy bill with such controversial issues as drilling in the Arctic National Wildlife Refuge, fuel efficiency standards for vehicles and climate change provisions.
- While there were some differences of opinion, the fact that most of the witnesses were from the Midwest and Northeast – regions that have moved forward with standard market design – produced a lot of testimony in support of mandatory Regional Transmission Organizations (RTOs) and in opposition to delay of FERC’s Standard Market Design.
- This is in stark contrast to the sentiments that characterized the Domenici electricity title – the bill that Sen. Domenici stated he would champion in the House/Senate conference on the energy bill. The Domenici substitute contained a provision that prevents FERC from going forward with SMD or any general order addressing any of the elements of SMD before July 1, 2005. It also contained numerous provisions designed to underscore voluntary utility participation in RTOs.
- Those two provisions were strengthened as a result of the fact that the Senate passed last year’s bill instead of the Domenici crafted Republican bill. Because Sen. Domenici needed to get unanimous consent from all members of the Senate, Sen. Richard Shelby (R-AL) was able to win additional concessions from Sen. Domenici in exchange for agreeing not to block the vote. Those two concessions were 1) a further delay in implementation of SMD to December 31, 2006; and 2) language preventing FERC from requiring a utility to join an RTO for any reason before that date.

- The conference began September 5 and fairly quickly broke down into partisan squabbles. Sen. Domenici announced at the first session that he wanted to avoid the offer, counter-offer back and forth that occurred at last year's conference and which, ultimately, failed to produce a bill. Instead, he proposed that he and Rep. Tauzin would produce joint Republican drafts of each section of the bill and then share the drafts with the rest of the conferees—meaning the Democrats. Despite protests from House and Senate Democrats, that is, in fact, the course the conference is pursuing.
- This week, staff to Sen. Domenici and Rep. Tauzin released their joint drafts of sections of the bill dealing with nuclear energy, the Alaska natural gas pipeline, clean coal technology, hydrogen and energy efficiency. We expect the draft electricity title to be released next week.
- Although House and Senate Republicans and the White House all badly want an energy bill with an electricity title, there are a number of very difficult issues that must be resolved. At the top of the list are whether there should be a delay in implementing FERC's SMD and whether RTOs should be mandatory or voluntary.
- From the Northwest, Reps. Greg Walden (R-OR) and Butch Otter (R-ID) on Sept. 9 sent a letter to Chairman Tauzin expressing support for certain provisions within the electricity title that impact the Northwest, including delaying SMD and making participation in RTOs voluntary. Specially, the provisions Reps. Walden and Otter ask the conferees to support include: 1) federal utility participation in RTOs with certain terms and conditions; 2) delay of FERC's SMD until a study on its impact on the Pacific Northwest has been completed; 3) giving FERC limited authority over public power transmission facilities ("FERC-lite") and clarifying that nothing in the section gives FERC the authority to order non-jurisdictional utilities into an RTO; and 4) native load/service obligation provisions that protect existing transmission rights;
- In addition, Rep. Peter DeFazio (D-OR) and eight Democratic members of the Northwest Energy Caucus sent a similar letter to Ranking House Energy and Commerce Committee Democrat John Dingell (MI) outlining the Caucus' priorities for the energy bill. In the letter, Members express support for Rep. Dingell's efforts to streamline the electricity title into a reliability-only title, but, realizing that Republican leadership is still insisting on a broader bill, proceed to outline the following priorities: 1) delay of SMD until Dec. 31, 2006 or at a minimum July 1, 2005; 2) no new FERC authority to order RTO participation; 3) voluntary federal utility participation in RTOs; 4) protection of native load; and 5) FERC-lite with clarification

that it does not give FERC the authority to order non-jurisdictional utilities into RTOs.

- Not surprisingly, the differences of opinion regarding SMD and RTOs reflect the regional differences in electricity markets. The Northeast-Midwest Coalition is circulating a letter for Senate signatures strongly supporting SMD and mandatory RTOs and opposing any delay in SMD implementation. They are hoping to strengthen the position of the House, where Rep. Tauzin and his conferees are generally supportive of SMD and RTOs.
- Members of the Senate from the Southeast, Northwest and West, however, continue to strongly oppose mandatory RTOs and want to delay SMD indefinitely or kill it outright. It will take a clever King Solomon to devise a way to reconcile these opposing views. One idea that has been suggested is to narrow the scope of the SMD delay provision to slow down implementation of only those critical market design elements – allowing FERC to act on matters like market monitoring, transparency and cyber security.
- Another “hot button” issue is the question of what incentives are needed to encourage more investment in transmission. This issue has risen to the top of the list of critical matters since the August 14 outage. Not surprisingly, the Edison Electric Institute is telling Congress that utilities need to earn higher rates of return to give them incentives to build new transmission.
- APPA has prepared a position paper that takes a different tack. APPA believes that utilities should be allowed to expense costs relating to the risky, pre-certification activities of transmission development –such as acquiring land and undertaking engineering studies – in order to provide them with better cash flow.
- But the costs of the capital investment in transmission -- once permitted -- is not risky, so there should be no additional “incentive” to utilities on top of the return permitted today by regulators. FERC today is allowing returns of from 12 to 14% and we are telling Congress that this is high enough to attract investors – just ask anyone with a 401 (k)!
- Other controversial issues in the electricity title include federal siting authority as a “backstop” in the event a state cannot or will not site a needed facility. Rep. Tauzin and the White House want this backstop; the states and PUCs are opposed to eroding their current authority. APPA is

not opposed to such authority, as long as it is truly a last resort to get critical transmission sited.

- Participant Funding as a method of allocating costs of new transmission is another controversial issue. Entergy and the Southern Company want the energy bill to mandate participant funding for all transmission upgrades. A broad coalition that includes public and private utilities, large industrial customers, independent transmission companies, and consumer groups is opposed. APPA is a leader in that coalition. The real dilemma is that Rep. Tauzin is supporting Entergy and Southern and he is determined to win on this matter.
- Given all these thorny issues, what is the outlook for the bill and the electricity title? The conferees are racing against the clock to finish the energy bill and send it back to the House and Senate for a vote. At the same time, the Republican leadership wants to adjourn by the end of October to let members go home to their families and to campaign.
- In addition to the energy bill, Congress must complete work on the Medicare bill that is a priority for Senate Majority Leader Frist. They must also finish the 13 bills that fund the government for fiscal year 2004 – or they must pass a stop-gap Continuing Resolution that will provide funds until they return in January. The President added to this workload by requesting an additional \$87 billion in FY 2003 funding for the on-going military presence in Iraq. So Congress has a lot to do.
- The real burden lies on Sen. Domenici's shoulders. Most House Republicans will support any conference report that Rep. Tauzin presents to them. As a matter of fact, we heard that the House Republican conferees were asked to promise that they would help, not hinder, development of a final bill. The Senate, however, is a much more individualistic body and to avoid a filibuster Sen. Domenici must craft a bill that will win 60 votes. This is a tough task.
- My bet, and that of many of my Washington colleagues, is that Sen. Domenici will prevail and one way or another Congress will pass a final energy bill –with an electricity title—in late October or early November. But as the clock ticks on, the degree of difficulty in producing such a bill increases...so I would never say “never” about the bill collapsing.
- The electricity issues on the table are high stakes for consumers, for public power, for our communities and for our economy. That's why it has taken nine years of debate to get to where we are today and why it will take a significant effort to pass a comprehensive bill this year.

Deborah's conference call concluded with a question and answer period and time for committee members to express Northwest concerns.

E. DIGITAL DISTRIBUTION FORUM

Scott Lindsay provided an update and general information overview of the Digital Distribution Forum held on August 25, 2003. The purpose of the meeting was, to review, provide comment and propose items for NWPPA activity on training, communication, and government relations' activity relating to broadband issues.

Attendance at the forum was light and it is staff's recommendation that there is little interest in further NWPPA activity this area at this time. Staff will continue to monitor interest in this area and notify the Board when interest and activity pick up at a later date.

F. PEOPLE POWER UPDATE

Scott Lindsay gave a brief update on People Power activities and notified the committee that Ruthann Mogen has submitted a letter of resignation as the People Power coordinator due to health reasons. NWPPA and PPC have contracted again with Liz Loomis to take the project over. Look for updates to the People Power Web site and materials in the near future.

G. OTHER BUSINESS & REPORTS

Scott Lindsay updated the committee on the following activities:

- Letter to Senate Energy Bill Conferees from NWPPA — Letter was sent to the attention of Sens. Larry Craig (R-ID), Craig Thomas (R-WY), Max Baucus (D-MT) and Ron Wyden (D-OR). The letter discussed the following six points:
 - SMD
 - FERC-Lite/Open Access
 - Native Load/Service Obligation
 - Tradable Tax Credits
 - Hydro Relicensing
 - Consumer Protections

The letter urged support of the positions outlined in the letter on each issue and asked Senate Energy Bill Conferees to communicate these to the Energy and Natural Resources

Committee Chairman Pete Domenici and Ranking Member Jeff Bingaman.

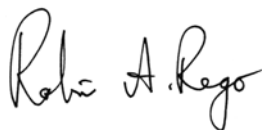
- GRC Meeting Notice Procedures — A new check box will be added to the Annual Meeting registration form asking registrants to indicate if they are planning to attend the GRC meeting in conjunction with the conference. Meeting materials and minutes will then be sent to individuals that indicate they will be attending.
- Washington D.C. Accommodations Discussion — Bruce Pilling explained the possible need for NWPPA and the GRC to secure an apartment/condo in Washington D.C. to make available to members going back to D.C. on congressional visitations. The committee was polled for interest in having NWPPA pursue this and there was a lack of interest after further discussion. Meera Kohler encouraged other committee members to use Priceline.com to get good rates for hotel rooms in D.C. Charlie Roe suggested that NWPPA might consider being used as a clearing-house to reserve hotel rooms due to its hotel contacts in D.C. NWPPA could possibly leverage volume to book room blocks throughout the year if coordinating room reservations for members. Ed Gossett suggested that committee members consider using corporate housing as an alternative to expensive hotel costs in D.C.
- GRC Training Course Advance — Scott Lindsay encouraged any members going back to Washington D.C. to consider taking NWPPA's Legislative Advocacy Training on November 5, 2003. A class advance flyer on the course was passed out to all in attendance.

H. NEXT MEETING DATE

The next meeting of the Government Relations Committee will be March 3, 2003 at the Heathman Lodge in Vancouver, Washington. Hotel and agenda information will be posted to the GRC Web site as soon as it is available.

With no further business the meeting adjourned at 11:40 a.m.

Respectfully submitted,



Robin Rego, GRC Committee Chair